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TÍTULO DEL TRABAJO FIN DE GRADO

INDITEX VALUATION

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Contents

SUMMARY

The main purpose of this end of degree project is to assess the value of Inditex stock and to make an investment recommendation based on the contrast between the estimated price and the market price. First of all, an analysis of the sector would be carried out in order to understand the definition of the industry, the possible threats and opportunities that the company will face in the future and understand the main growth factors which are likely to shape the future of the clothing industry. In addition, we will provide a company description by analyzing the main features of the business model as well as the different commercial formats of the company. In addition, an economic and financial analysis of the company´s track record would be elaborated based on the financial statements disclosed by the company.

These three topics would give us a theoretical framework to project three different scenarios: an optimistic scenario, a neutral scenario and a pessimistic scenario. The value of the company would be calculated in each scenario according to a discounted cash flow method, afterwards the price per share will be also calculated. Those three scenarios would be unified into a single price assuming three different distributions. Once the expected price has been obtained, we will introduce the risk in the analysis by two different ways. The first way would be to compute a sensitivity analysis in order to understand how changes in the discount rate and in the growth rate modify substantially the price per share obtained. The second will be based on stating confidence intervals at different confidence levels and establish a range of values in which the share will move. To check the results obtained by DFC method, we will use relative valuation based on three main multiples: price to earnings, price to sales and price to book value. To conclude I will provide a recommendation for the stock and a range of possible values.

1. ANLYSIS OF THE CLOTHING SECTOR

1.1. INTRODUCTION

Clothing has proved to be a resilient sector to the economic crisis. In fact, despite the low or even negative growth rates in the GDP of the most developed countries this sector has been able to outperform the wider retail sector, showing a modest but steady growth. The sector of apparel retail is characterized by its unpredictability. Over the years the rate of growth has been volatile and is expected to continue as it was.

The global apparel retail industry generated in 2008 1.025,9 $, growing a 3% compared with 2007, and it is expected to be worth in 2013 1.184,1 billion by this year (2013), this will represent a CAGR* of 15,4%.

There are three key themes in clothing at the moment: **international growth, internet and inflation.**

1.2 KEY DRIVERS IN THE CLOTHING SECTOR

First of all, forecast growth is set to continue on a global basis but will be skewed to emerging economies like Asia and Russia. With respect to developed countries, the growth will come mainly from virtual retailing. In Spain, the situation is much more dramatic. According to EAE business school, the global expenditure per capita on clothes has been reduced a 22% since 2007.

- **International expansion** is a key issue in retailing, but it is even more relevant now that the growth comes from outside of developed countries and customers tastes have globalized. Fashion is more homogenous than before, this should make international expansion easier than in the recent past. In contrast to the traditional model of international expansion, retailers are directing their efforts to developing countries like Russia and China which are predicted to deliver clothing consumption growth of 10% and 8,8% per annum (source: Geohive). The scenario of developed countries is becoming highly unattractive because of high saturation, anemic demand and the difficulties for the suppliers to maintain the traditional broad margins.

FIGURE 1: PERCENTAGE OF SALES GENERATED OUTSIDE THE DOMESTIC MARKET

Source: Company data.

- **Deflation** in the sector has been one of the most powerful drivers of growth. The growth of value retailer driven for the demand of inexpensive and fast fashion has led to an overall decrease in prices over the past decade. However, the **inflation** is beginning to appear within the sector. We are going to analyze the main costs that apparel retailers have to face and asses how the price of those factors have evolved in the recent years and how they are likely to evolve in the upcoming years:
    1. At a rough estimate, fabric accounts for 40% of the price of a garment. Within fabric, the most relevant commodity is **cotton** which accounts a 30% of the fabric cost.
    2. **Rising transport costs affect negatively supplier's margins**. As we will see later, this sector is dominated by business models which are based on fragmented value chains. The logical consequence is that clothing companies depend heavily on transport costs to connect the different parts of the value chain.
    3. **Wages costs pressures and currency movements increasing.** It was low cost labor in china and developing countries the factors that have allowed large increases in clothing retail gross margin over the last decade. However, the era of cheap labor appears to be drawing to a close.

FIGURE 2: MONTHLY WAGE RATE IN ASIAN COUNTRIES (£)

Source: Planet retail

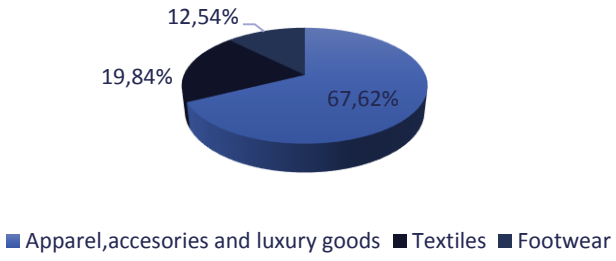
- **Internet** will represent a significant part of the growth in both developed and developing countries. Online clothing has growth at an average of 24,7% in the last decade, However, this growth can represent problem for retailers. On the one hand, internet provides huge opportunities for growth, allowing to reach customers in distant geographical locations at a relative low price. On the other hand, It will increase substantially the overall level of competition within the sector. Customers will be bounded no more by their geographical location and will have at their disposal unlimited choices.

1.3 STRUCTURAL ANALYSIS OF THE CLOTHING INDUSTRY

Porter´s five forces in an analytical tool designed mainly to assess the degree of attractiveness of a certain industry from its structural point of view, this framework views the profitability within a given industry as determined by five forces of competitive pressure[1]. For valuation purposes, understanding the forces that shape competition within the sector is useful to forecast future profitability, to project cash flows and to assess the quality of strategies followed by the management.

The first step is to define the industry, for this purpose we are going to use the NACE (European classification of economic activities). According to the database SABI, it is classified with NACE REV. 2 Code: 4642 as a group devoted to the production and retailing of textile products**.** The international scope of Inditex´s industry is global because of its international diversification in terms of sales. The global apparel and textile industry could be split down into three major segments: Footwear, textiles and apparel, accessories and luxury goods.

FIGURE 3 : COMPOSITION OF THE INTERNATIONAL TEXTILE INDUSTRY



Source: Datamonitor.

Structural determinants:

Competition: Apparel industry has been traditionally considered as a typical example of fragmented industry. However, in the last decades large firms have emerged in this sector concentrating upon them a higher proportion of the overall sales. The companies within this industry tend to be diverse because of brand, prices, business model, size and with a great perceived product differentiation. The efficiency in Inditex´s segment is driven by large economies of scale, storage costs, and transportation costs among others. Consequently, we should consider that Inditex does not compete with all the companies within the industry but only with those that are characterized by large volumes and international presence. Considering all the before mentioned requirements, Inditex´s main competitors of are: Next PLC, H&M, GAP, Abercrombie & Fitch and Fast retail co. Apparel industry is highly competitive in terms of price and quality but affordable prices do not always mean low margins and low profitability. In fact, Inditex has exploited

[1] Econometric studies have demonstrated that the structural variables are not the major determinants of company´s returns.

its “low prices” to achieve high levels of rotation and what is more, Inditex has adapted their strategy to differentiate from competitors through the offering of a unique bundle of benefits.

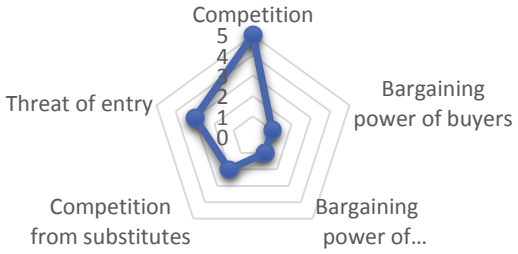
Bargaining power of buyers: Inditex targets nearly all the segments within this market through its corporate portfolio of commercial trademarks. The companies need to adapt to customer´s tastes, as in every industry, however in this industry adapting to the customer is even more crucial than in others. The demand of these kind of products tend to be fragmented, there is no customer that concentrates a high share of the purchases. Thus, the demand is dominated by individual customers who have no bargaining power.

Bargaining power of suppliers: The bargaining power of suppliers depends on some structural characteristics like the number and concentration of suppliers, the switching cost for the buyer, the importance of the input in buyer´s value chain…In our case as the suppliers are small companies which have to adapt to the requirements of the buyer and which provide commodity type products, thus suppliers lack bargaining power. As we will see later, Inditex has adopted a high degree of vertical integration its production process remains inside the company.

Competition from substitutes: It is difficult to find substitutes coming out of the industry. However, there is a significant degree of substitution between segments of the market. For example, sportswear is often a substitute for other more traditional clothes.

Threat of entry: In Inditex´s segment the barriers to entry are high. Competition requires large amounts of capital investment, large output to benefit from economies of scale, information technologies, economies of scope and strong brand reputation. Newcomers may accept competing in niches not covered by top companies or entering on a big scale with very few survival possibilities. These barriers could be overcome by international companies that decide to enter in new markets where Inditex holds a substantial market share. This is the case of GAP, the second biggest retailer of textiles and apparel, which has focused its efforts on penetrating into European market.

FIGURE 4: INTENSITY OF STRUCTURAL FORCES



Source: estimates

2. INVESTMENT CASE

2.1 INTRODUCTION

Until here, we have defined, explained and analyzed the main growth drivers that are likely to dominate the sector in the next upcoming years. Indeed, through the use of Porter´s five forces we have concluded that the competition within the sector is fierce but the other dimensions make the industry to be moderately attractive.

The principal **mission** of this end of degree project lies on valuating Inditex, providing a recommendation upon the stock and stating a range of values where the share will be. However, before starting with the numbers it is necessary to go through company´s strategy to understand its objectives, business model, international strategy and commercial formats. All the before mentioned elements will be incorporated into cash flow projections and into the valuation against its peers.

The investment case is going to be based on three main areas:

- **Strategy analysis**: Company description, Business model, international strategy and commercial formats. The goal would be to understand the possible evolution of Inditex´s strategy and how their outcomes would affect the company.
- A complete analysis of the **track record** is fundamental to project the different **scenarios** with consistency.
- **Valuation**: Discounted free cash flow framework with three scenarios including risk measures and Relative valuation against its peers.

2.2 STRATEGY ANALYSIS

2.2.1 Company description:

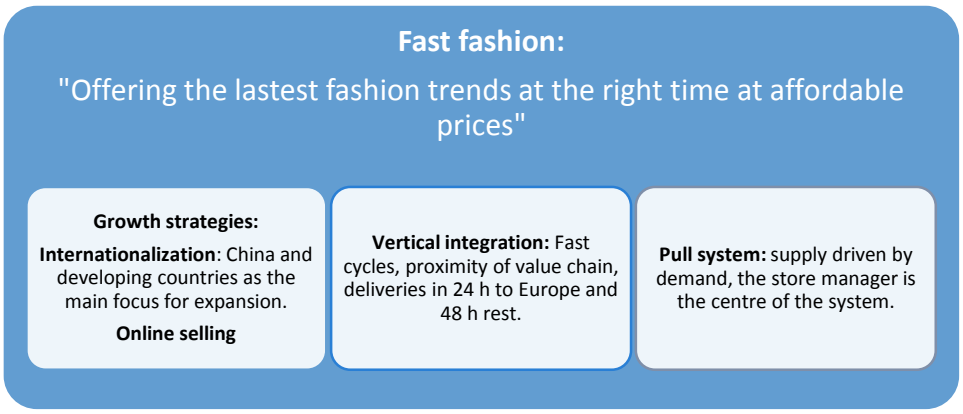
- Mission: Maintain the leadership in the sector by offering the most fashionable trends at the right time at affordable prices
- Vision: To reach all the places, customers and niches where growth opportunities exist.

Inditex is a global retailer headquartered in Spain. In terms of volume, it is the first textile group in the world. The group, represented by its parent company inditex S.A, is a Spain-based organization primarily engaged in the apparel sector. The group´s core activities include manufacturing, distribution and commercialization of fashion items, mainly clothing, but their scope includes also items like footwear accessories and household textile products. It operates 8 independent formats across 4780 stores in 77 countries. Its key

point of differentiation is its business model, which is unique in the industry. It operates a vertically integrated model encompassing design, manufacture and sourcing, distribution and logistics right through to store and internet retail, but where I believe its true advantage lies is that its approach is about “pull” rather than “push”.

2.2.2 *The business model at a glance:*

FIGURE 5: THE BUSINESS MODEL AT A GLANCE



Source: company reports

The pull approach: a supply driven by demand

In contrast with most of the clothing companies, Inditex do not tries to sell what they manufacture. They try to manufacture what it is going to be sold. Thus, products are pulled by demand rather than pushed by the company.

This model puts the store manager at the center of its business model. The store manager is in constant communication with the customer and sends information to the product team daily. The product team together with the design and sourcing team then synthesize all this information into the product development. Once product is in stores then the collation of daily store feedback by the product store teams on what is selling and what is not allows Inditex to constantly modify its collections in way that other less well connected retailers cannot. 40% of ranges are open–to-buy at the start of each season, leaving the teams with considerable flexibility.

The stores only hold three days of stock and if a design is not sold within a week, the item is withdrawn and further orders are cancelled. This substantially reduces Inditex’ markdown versus peers – the company claims it to be half that of the mid-market retailers ie at 15-20% vs 30-40% industry average.

Another example of the pull model comes in the stores. Inditex operates stores all around the world, but is careful to ensure that stores and headquarter product teams are staffed with locals, who understand local preferences and tastes and

can adapt stores accordingly. While there is a global look for each store, collections differ from place to place.

The reconciliation of speed and cost

Inditex describes its business model as “creativity and quality design together with a rapid response to market demands” .To deliver rapid responses to customer demands at reasonable prices, Inditex has abandoned the fashion industry’s traditional model of seasonal lines of clothing designed by star designers, manufactured by low cost subcontractors months earlier, and marketed with a push rather than pull system. In contrast, the Inditex holding company operates over one hundred subsidiaries, vertically integrated design, just-in-time production, distribution, and retail sales to speed communication from customers to designers.

The fundamentals of Inditex´s business model are:

1. **Vertical integration**: The main objective is to match actual buyer´s choices to actual supply through rapid responses. This approach requires a deviation from the traditional business model which has dominated apparel industry and which was based on a substantially outsourced value chain. Inditex policy states that “production shall be adapted to customer demand. If this is achieved, production will be able to focus on trend changes happening inside each season”

   The traditional business model combines design and sale but outsources manufacturing, often to low-wage companies in Asia and elsewhere. Those companies, with the aim of minimizing their overhead costs, use networks of subcontractors that may buy, dye, embroider, and sew fabric each in a different country. Of course, the cost advantage obtained by this value chain fragmentation is clear. However, there is a tradeoff in terms of time. This process can stretch the design to manufacture cycle to 8 months.

   In contrast, Inditex produces a large proportion of its products in its own factories. Typically, Inditex performs internally the more capital-intensive and value-added- intensive stages of production, such as purchasing raw materials, designing, cutting, dyeing, quality control, ironing, packaging, labeling, distribution, and logistics and outsources more labor-intensive and less value-added-intensive stages of production, such as sewing.

2. **The reconciliation of Speed and costs**: Whereas most producers view fashion products as consumer durables, Inditex considers them non-durables. This approach implies that the customer would buy apparel frequently adapting to the changing fashion trends at inexpensive prices. If we believe this idea, the two key success factors are speed and cheap prices.

On the one hand, Inditex makes every effort to reduce its design-to-retail cycle. These efforts include vertically integrating design and manufacturing far more than its competitors, using mostly local subcontractors in near geographical areas, and developing with Toyota "just in time" production lines that can be modified based on demand. While the standard design-to-retail cycle in the industry is five to six months, Inditex's cycle is only five weeks. The shorter design-to-retail cycle allows Inditex to bring more styles to its stores and to update them constantly. While many competitors ship products to stores every twelve weeks, Inditex does so twice a week. Changing its offerings quickly gives them scarcity value, encouraging customers to visit their stores more often and to buy more.

On the other hand, Inditex is highly price concerned. Inditex maintains its prices below competitor´s prices, the company analyzes the price that buyers are willing to pay for competitors' products. Then, the company establishes target prices for its own products, often 15 percent below those of competitors, and searches for suppliers through which adequate margins can be maintained. In addition, cost savings policies like little advertising, no star designers, no complex technologies, low storage costs, low proportion of discounted sales… contribute to reconcile flexibility and speed with cost.

International strategy:

Inditex begun its operations in 1975 with the first opening of Zara in Coruña, Spain, and in 1988 started its expansion for international territory. Nowadays, Inditex is present in more than 87 countries, and has intention to continue the internationalization progress in order to increase the diversification.

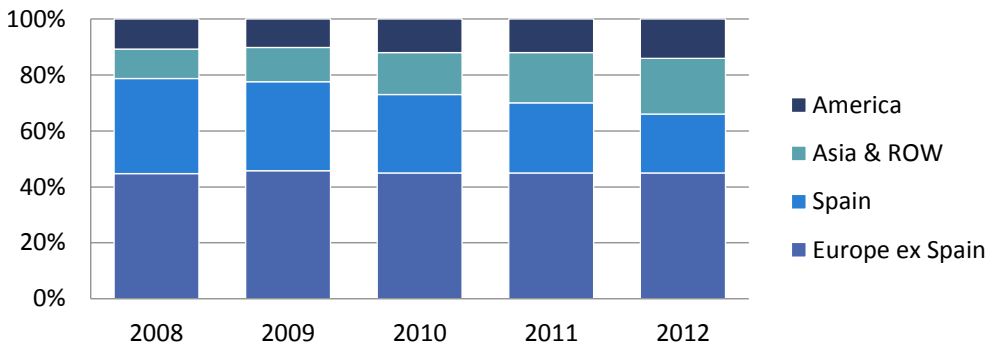
With the process of internationalization, Spain has been losing sales' share, increasing the share for the remaining Europe, which accounts for almost 50% and is now considered Inditex's domestic market. In Western Europe there is still opportunities for growth in markets such as Italy, France, Germany and United Kingdom where the market share of Inditex is still small – bellow 1%.

Besides, Eastern Europe, in particular Russia, which in fact was the fastest growing country in apparel retail with a CAGR of 10,4%2 from 2005 and 2009 within the BRIC[2] group. In addition, Asia-Pacific is the region where Inditex has been more focused given the high prospects of growth and where demand for apparel products is increasing due to the increase of household wealth. The countries of major focus in Asia are China, Japan, South Korea and more recently India, where Inditex recently opened its third Zara store. Despite the different

[2] BRIC: Acronym that refers to the Brazil, Russia, India and China, which are all deemed to be at a similar stage of newly advanced economic development

culture in Asia, globalization has been a great impulse in the acceptance of Western culture, smoothing Inditex's penetration in that region.

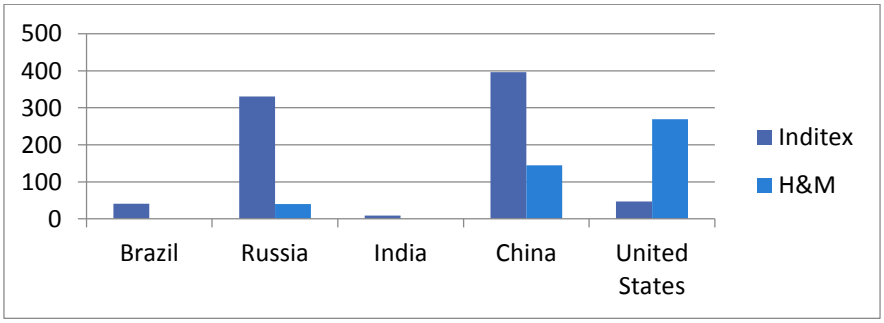
FIGURE 6: SALES DISTRIBUTION PER REGION



Source: company reports

In my opinion, Inditex´s strategy has been really smart in terms of geographical diversification. They have been able to build a stable base of sales combined with an exceptional position in high growth markets that are likely to drive the growth of the global economy in the next few years. In terms of diversification, the peer H&M is lagging Inditex's expansion into high growth markets, like Asia, Russia and Brazil. While Inditex has an exposure of more than 20% to Asia and Russia, H&M's exposure to this markets is relatively small, around 5%, and is more concentrated in German and Nordic countries with around 40% of sales in that region.

FIGURE 7: NUMBER OF STORES IN MARKETS WITH HIGH POTENTIAL FOR GROWTH



Source: Inditex & HM webpages.

In conclusion, Inditex has built an extraordinary position in high growth countries and avoided the saturation of most developed markets like United States and Europe where the competition is fierce. If this strategy is successful, it would be able to capture the growth of those high growth countries. However, this strategy entails some risks because of the instability of those countries with respect to the most developed ones. In my opinion, Inditex would be able to benefit from its incumbency advantage[3] in the following years and would continue its policy of

[3] Incumbency advantage: Referred as the advantage of being the first.

growth through space expansion in Asia and specially in China. According to company´s presentation the capital expenditure for the next year is expected to be 1,25 billion with the opening of 440-480 stores across the different formats, 110-115 will account for Zara stores and 95-100 to Stradivarius stores. All this new space will account for international stores.

Online Business

Internet currently is one of the main drivers of growth in the apparel retail, offering growth opportunities within the existing markets and also allowing further penetration in the market.

During the financial crisis, some statistics showed that while in store sales were contracting, the sales via Internet were increasing. For instance, in the United Kingdom, although sales in stores were falling by 1,4% in December 2008 compared with the previous year, sales online increased by 30%5. During the year of 2009 until October even though overall sales in the United States had fallen, the online sales increased.

The Internet is also being used as a platform to boost sales as more and more customers use it to research products and buy them in store afterwards. However, the ability of the shopper to easily compare products online can be seen as a threat as it increases competitiveness.

I have not found data about the percentage of sales that these online platforms represent of the total sales. In fact most of the selling platforms have been recently opened, the sales impact are still small compared with the overall result of the company. According to some analysts Inditex sells in Spain through this platform twenty million euros with an estimated result after taxes of 320.000 euros. In the fiscal year 2011-2012 ITX[4] fashion sold 143,5 million euros, the final net income was about 18,6 million. Inditex has not disclosed information about its online sales in fiscal year 2012-2013 but some analysts expect this figure to double.

At the beginning of financial year 2012 Inditex has implement its online sales platform in 18 markets across Europe and has launched its online platforms for Zara in the US, for Zara in china and Massimo dutti, Zara home and Zara in Canada.

2.2.3 Inditex breakdown by concept:

The best way to evaluate the business would be by assessing each concept separately since not all the business are in the same stage of maturity neither they operate in the same geographical areas and some of them sell substantially different products. Inditex´s annual reports disclose only information from some key magnitudes like sales and EBIT in each format. Thus, I consider it is not

[4] ITX fashion is the company that sells Inditex products through online platforms

possible elaborate cash flow projections for different business lines. However, there is enough information to analyze some key magnitudes like sales and operating margins.

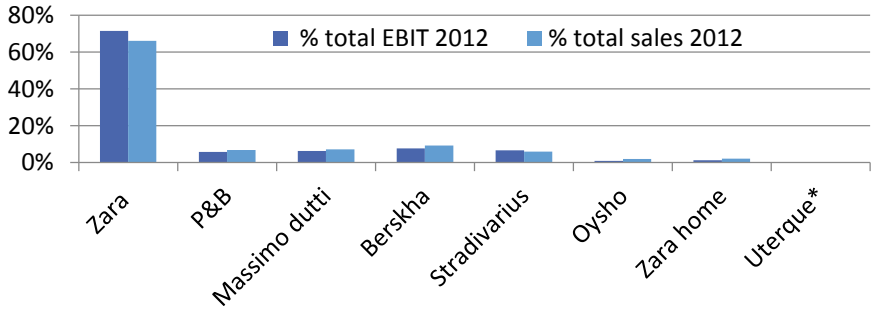
Inditex reaches a high proportion of the market through eight commercial formats targeting different customers´ profiles. The eight commercial formats are managed under the same principles and with a similar commercial approach, however, those subsidiaries maintain a high level of autonomy in their decisions. Many duplicities can be avoided because of the integration of this companies under common ownership as well as marketing, financial and production synergies.

FIGURE 8: INDITEX´S COMMERCIAL FORMATS.

Format	Description	Financials[5]	Nº of stores
Zara	Flagship brand, encompassing many styles from daywear, workwear, eveningwear and including shoes and accessories. Fashion for women, men and children	Sales:10.541 EBITt:2.233	1863
Massimo dutti	Elegant, classic design targeted at women, men and children and with a more up- market positioning that the remainder of the group (except for Uterque)	Sales: 1.013 EBIT: 238	592
Pull and bear	Casual, urban, laid back fashion for young men and women (14-28). Pricing is competitive with more of a value positioning than Zara	Sales: 1.086 Ebit: 182	770
Bershka	Lastest fashion for young women and men (13 to 23)	Sales: 1.300 EBIT: 159 m	839
Stradivarius	Women only - urban fashion at attractive prices (15-25 yrs) Innovative approach to fashion	Sales: 871 Ebit:192	716
Oysho	Lingerie and loungewear for women and girls	Sales: 313 EBIT: 36	498
Uterque	Affordable luxury format. Probably limited to fashion capitals. Pricing is mid market for high end look product eg EUR 70-150 for shoes and EUR 90 to 250 for bags	Sales: 68 EBIT: nd	90
Zara home	Homeware	Sales: 317 Ebit 39	325

Source: annual report

FIGURE 9: PERCENTAGE OF SALES AND EBIT THAT EACH COMMERCIAL FORMAT REPRESENTS.



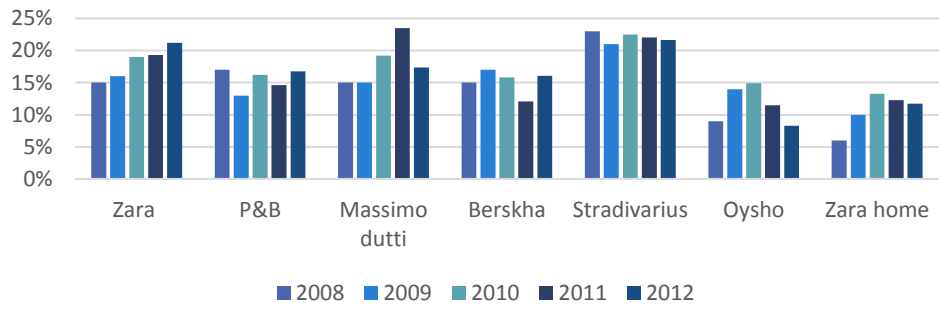
Source: Company data

[5] All the magnitudes are represented in million euros.

The format with the highest contribution to group`s sales and EBIT is Zara. There is a second group of companies with a substantial contribution, they are: Berskha, Massimo dutti, Stradivarious and pull and bear ranked by order. The third group is composed by the least important companies in terms of contribution to sales and EBIT which are Zara home, Oysho and Uterque.

Once the contribution of each format has been analyzed we might continue by analyzing the evolution of sales and margins across the past five years. EBIT[6] represents operating profit before taxes, or in other words, the operating capacity of each format to generate operating profits. EBIT growth has been strong over the past five years. This growth has been mainly driven by Zara which has shown a positive evolution in its core operations across the past five years. The top performer in terms of margins is Stradivarious with small fluctuations from year to year. In general, all the commercial formats show a positive evolution when compared with the EBIT margins of 2008.

FIGURE 10: EBIT MARGIN PROGRESSION BY FORMAT.



Source: Company data

2.3. TRACK RECORD

2.3.1 Introduction

In this section we are going to analyze the past results which Inditex have disclosed in their financial statements. Track record analysis would be based on the following points:

1. Introduction.
2. Growth rates
3. P&L margins:
4. ROE, ROIC, financial leverage & Dupont analysis.
5. Net balance sheet analysis through structure ratios.
6. Working capital analysis.
7. Breakeven point.

[6] A better reference would be EBIT*(1-T) which is called NOPLAT, In case we would like to measure the capacity of formats to generate cash flow we should add the amortization to get the gross operating cash flow.

8. Operating leverage.
9. Cash flow.
10. Debt analysis.
11. Earnings per share, Dividends per share, payout ratio and retention ratio.
12. Free cash flow, debt service & equity service.
13. Some highlights.

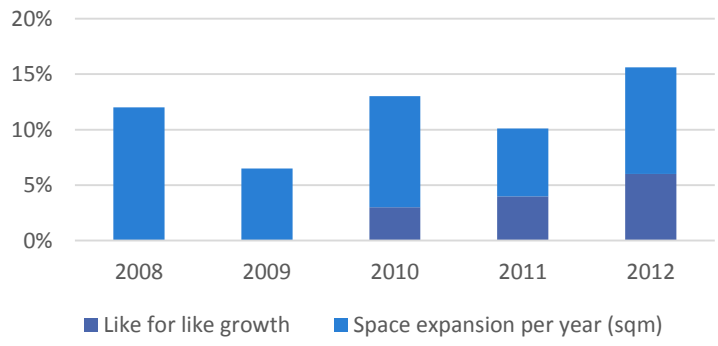
Please, note that all the elements which have been used in the financial analysis are displayed in **appendix 1: financial analysis**

2.3.1 GROWTH RATES:

Inditex has a strong track record of top line growth. It has delivered an average growth rate of 11,45% in sales driven primarily by space expansion. Growth in sales can be divided in two major magnitudes: LFL[7] and space expansion. With respect to the first concept, the LFL has been conditioned by the economic slowdown that have suffered the major economies during 2008 and 2009. However, I note a substantial increase in the most recent years driven by the economic recovery, the successful international expansion and the good results obtained by their online platforms.

Despite the rapid space expansion, the investments in new space will tend to continue because of the high potential of emerging countries for growth and the low market share that the company holds in most of these countries (current market is less than 1%). In principle, the company will continue pursuing growth through space expansion combined with a positive LFL growth

FIGURE 11: BREAKDOWN OF SALES GROWTH



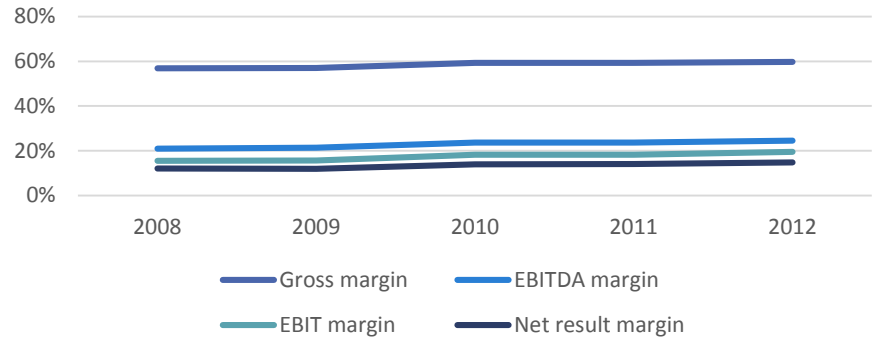
Source: estimations and company´s data.

[7] **Like for like** (**LFL**) growth is a measure of growth in sales, adjusted for new or divested businesses. This is a widely-used indicator of retailers current trading performance. The adjustment is important in businesses that show a significant dynamic of expansion, disposals or closures.

2.3.2 P&L margins:

The gross margin has remained more or less constant over the last five years, showing a slight positive evolution from 57% in 2008 to 60% in the last financial year. The EBITDA[8] margin has also shown a positive evolution in the past years driven mainly by an increase in operating efficiency, this magnitude is extremely important since for most of the companies reflects the operating capacity to generate positive cash flows in its core business. Other magnitudes like EBIT margin and net result margin have evolved positively. The profit and loss account is displayed in the appendix section 1.1.

FIGURE 12: FUNDAMENTAL MARGINS



Source: estimations and company´s data.

2.3.3 ROE & ROIC:

Two magnitudes that are usually used in relative valuation and which provide important insights to assess the performance of any company are the **ROE[9] and ROIC[10].** In our case, the ROIC[11] has increased really fast in the past five years from 32% to 51%. ROIC is a measure of the ability of the company to generate returns from each unit of capital invested. As an example, Inditex was able to generate 51 monetary units from each 100 units invested in the last fiscal year. In comparison with the average of the sector the figure is far above its peers[12]. As far as the ROIC is above the cost of capital, the firm will generate profits from its capital investment. Another well-known figure is the ROE which can be decomposed[13] as follow:

$$ROE = ROIC + (ROIC - Kf) * \frac{D}{E}$$

[8] EBITDA: Earnings before interest,taxes,depreciation/amortization.

[9] ROE: also called return on equity, can be defined as the net result of the company divided by the amount of equity in the previous period.

[10]

[11] Return on invested capital, also known as ROCE. It is calculated as: $ROIC = \frac{EBIT*(1-T)}{Net\ assets}$

[12] According to infinancials the average ROIC for its peers is 51,02% while the ROE is 36,35%.

[13] The decomposition of ROE is based on Mogdiliani miller proposition II.

Where: ROIC: return on investment capital; kf: cost financial result & D/E: debt to equity ratio

This equation states that the return on equity is the result of what the company generates by the deployment of capital (ROIC) plus the leverage. Thus, this formula is useful in order to evaluate the quality of the ROE. If the ROE comes from a high ROIC this means that the company is very efficient using its capital and the high ROE is justified. However, if the ROE is far above the ROIC, the return for equity holders would be achieved by assuming a high degree of financial risk. As a conclusion, two companies can have the same ROE but the situation of both companies can be totally different. We would tend to prefer, when two companies have the same ROE, the one which the highest ROIC. In contrast with the ROIC, the average ROE for the sector is higher. However, we must highlight that Inditex is able to achieve this ROE at a really low financial leverage. All the details with respect to ROE and ROIC calculations are included in Appendix 1.2.

In our case, the company presents a negative leverage factor; the company holds negative net debt[14] position. This leads to a negative factor that decreases the ROE.

ROE is a magnitude that includes several variables; DuPont analysis is useful to decompose the ROE and to analyze the main value drivers of this company. DuPont analysis is displayed in Appendix 1.3.

Tax margin has remain more or less constant around 76% as well as the impact of the financial result which is negligible or even positive[15].Good operating margin performance is in my opinion the main value enhancer in those past four years with an upward evolution from 16% to 20% combined with a high asset rotation. In the last ratio, the one referred to leverage, we can see the effect[16] of negative debt.

As a conclusion, the company has a high ROIC compared with the sector[17], this means that the company is more efficient generating returns from its assets. The ROE is below the average of the sector but it is generated at a very low financial risk.

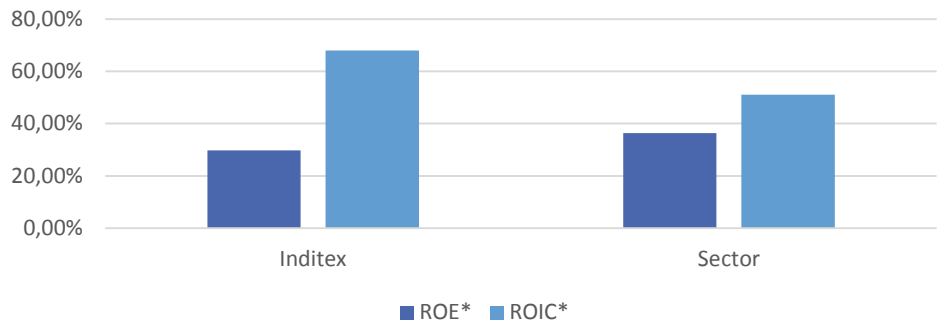
[14] Net debt: Total debt - cash

[15] This is because the large amounts of cash kept in the company which are invested and generate positive interest in favor of the company.

[16] In our case, equity is higher than net assets. This means that the company has negative debt. Do not forget that the amount of assets has to be equal to the sum of equity and debt.

[17] Infinancials use to define the sector the following companies: Fast retailing co, Shinamura, Truwoths, Next PLC, Abercrombie & Fitch, Foot locker, L Brands, Ross stores, Gap, H&M, Burberry,Tjx companies, Urban outfitters,Lululemon Athletica & Whoolworths holding.

FIGURE 13: ROE & ROIC



Source: Infinancials.

2.3.4 Structure ratios:

Inditex manages a negative working capital business (we will analyze this in the next section) and a negative net debt business in the short run and in the long run. The balance sheet is displayed in the appendix section. The table showing Structure ratios is in the section Appendix 1.4

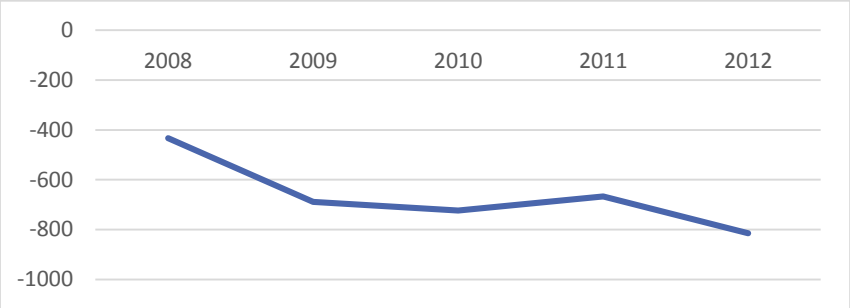
2.3.5 *Working capital analysis*:

The case of having negative maturity period is typical from retail companies that are able to sell and collect the money from their merchandise before they pay to their suppliers. This is our case, Inditex is able to manufacture/sell & collect the money before the payable is due. Therefore, it does not need to ask for short term loans to finance its production cycle, the production cycle itself generates cash. This scheme helps to save interest costs and risks that are generated in most of the companies because of the maladjustment between the production and payment period. With respect to its evolution, you can see in the table the main elements that compose the maturity period (stocks, receivables & payables).

I note an overall increase in the maturity period in +9 days[18] in the last four years, this increase is mainly due to increases in collection period (the company is not so efficient collecting its receivables) and a decrease in the days of payment (the company has less time to pay). In my opinion, the figures are really good since in general terms the working capital is becoming more negative from year to year leading to an increase in operating efficiency and a positive contribution to operating cash flow. The working capital does not consume resources; it is a free interest financing source because of its negative nature.

[18] Note that increases in the maturity period reduce the overall efficiency, a higher investment is need to maintain company´s operations. In the case of collections, if the collection period increases this means that the company is keeping a higher proportion of receivables (compared to sales) than in the previous year, consequently the company needs more time to collect their invoices and has less cash at its disposal.

FIGURE 14: WORKING CAPITAL EVOLUTION IN THE BALANCE SHEET FROM 2008-12



Source: estimates based on Inditex´s accounts.

The table showing working capital analysis is in the section Appendix 1.5

2.3.6 Breakeven point:

The breakeven point can be defined as the point in which what the company earns equal its costs, thus it has 0 profits. I have calculated breakeven over two different magnitudes: EBITDA and net profit. The company is far above the sales that would need to reach a neither profits nor losses in EBITDA and also far above the sales that would need to reach 0 profits. The evolution in the last years has been really in good in both magnitudes, in EBITDA from 159% over sales to 170% in the last fiscal year and in net profit from 137% to 149%.

The table showing breakeven point analysis is in the section Appendix 1.6.

2.3.7 Operating leverage:

Operating leverage measures the sensitivity of an EBIT to changes in sales. The sensitivity would be conditioned by the amount of fixed costs that the company bears. If a company has a high amount of fixed expenses, which would be payable if the company sells or does not sell, the company would be highly leveraged and the EBIT would be quite sensible to changes in sales. Let´s see the evolution of Inditex´s operating leverage.

The degree of operating leverage has decreased in shows a downward tendency. It has decreased from 3, 68 in 2008 to 2, and 06 in 2.012. Operating leverage has been calculated through a decrease in sales in 10% and analyzing how the EBIT changes according to that decrease.

The table showing operating leverage analysis is in the section Appendix 1.7

2.3.8 Cash flow:

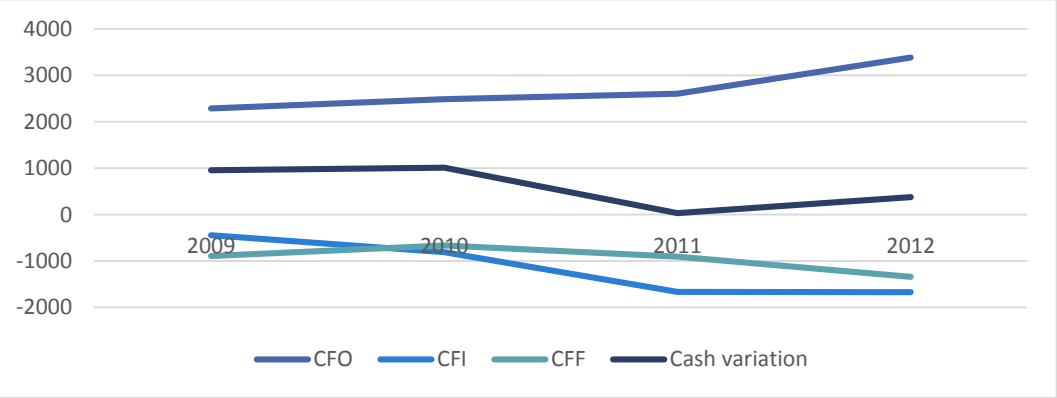
The capacity for the firms to generate cash flows is one of the most important issues to analyze. The companies need cash to finance their operations and in some cases to pay their shareholders. A company can generate positive results in the profit and loss account but the performance of the company can be really disappointing. Thus, results in the P&L may be checked against the cash flow

statement. Especially important is the firm´s capacity to generate positive cash flows from its core operations.

Inditex shows an upward evolution in its operating cash flow (CFO[19]) driven by increases in NOPLAT[20] combined to stable and small investments (negative in year 2011) in its working capital. With respect to cash flow from investment, I have decided to separate it in two main groups: CAPEX[21] composed of tangible and intangible assets and other fixed assets. The company has increased its investment from year to year due to investments in new space, logistic centers and the launch of its online sales platform. We will analyze the reinvestment rate later.

The company holds large amounts of cash, the investment of this cash into deposits and other monetary elements combined with the low amount of debt lead to positive financial results. The company has repaid and important amount of total debt in 2008 and has maintained more or less a constant the debt level. The dividends show a substantial increase across the years, we will see it in detail later. The minorities[22] show slight variations from year to year with no clear path. Other financial liabilities account mainly to some call options that the company has sold and other movements in equity is the variable used to gather all the movements which have not been included in the rest of the cash flow. The abridged & detailed cash flow is in the Appendix 1.8.

FIGURE 15: MAIN ELEMENTS OF THE CASH FLOW STATEMENT.



Source: estimates based on Inditex´s accounts.

2.3.9 Debt analysis:

One of the main features of Inditex is that it maintains a negative debt position. In fact this feature has to do with its negative maturity periods; it generates very fast the cash and does not have to ask for debt to cover its production cycle. The

[19] CFO: EBIT*(1-T)+Adjustments (non cash operating expenses)- Investment in WK and operating assets.
[20] NOPLAT: Net operating profit less adjusted taxes= EBIT*(1-T)
[21] CAPEX: The amount invested by the company in property, plant and equipment. I have define it as follows: $\text{Capex} = (Tangible_{t+1} + Intangibe_{t+1}) - (Tangible_t + Intangibe_t) + depreciation$
[22] Minorities: 1. A significant but non-controlling ownership of less than 50% of a company's voting shares by either an investor or another company. Source: Investopedia.

amount of debt is less than the amount of cash. This leads most of the times to positive financial results. I have not included the foreign exchange losses[23] since it is not a cost derived from debt instruments. You can see in this table the analysis[24]:

The average cost of debt in the past four years is 1, 97%. In addition, the amount of debt is becoming more and more negative because of the strong cash generation.

The net debt cost of debt & total debt analysis is in Appendix 1.9.

2.3.10 Earnings per share, Dividends per share, payout ratio and retention ratio:

The company believes and it has been proven to be truth at least in the past that there are still opportunities for growth available. Thus, the company distributes through dividends a bit more than a half of its net result against other companies like H&M which distributes nearly all its earnings per share, it will distribute 9,50 SEK[25] accounting for the year 2012. The rest, illustrated by the retention ratio, is kept inside the company either as reserves or is directly reinvested in new growth opportunities. Both, dividends per share and earnings per share[26], show a very good evolution in the last three years. It is also important to notice that the dividends per share and the EPS have grown in the same amount in the last three years period.

The EPS, DPS, payout ratio & retention ratio are in the appendix section 1.10.

2.3.11 FCFF[27] & services:

The free cash flow (FCF) is one of the most important indicators in evaluating company´s performance. The FCFF[28] measures the cash flow generated by the company through its operations taking into account the reinvestment needs in growth assets[29].In fact, the FCFF or the FCFE[30] are the main magnitudes used by analysts in valuation.

As you have noticed before, analysts use two main types of cash flow:

$$FCFF = EBIT * (1 - T) + depreciation - Change\ in\ non\ cash\ working\ capital - Capital\ expenditures$$

$$FCFE = EBIT * (1 - T) + depreciation - Change\ in\ non\ cash\ working\ capital - Capital\ expenditures + (New\ debt\ issued - Debt\ repayment)$$

[23] Loses because of currency movements.
[24] Note that I have divided the financial expenses from debt instruments by the total debt of the previous period since I assume it is the debt which has generated those costs.
[25]Note that EPS and DPS are measured in the local currency, in the case of H&M in Swedish crowns.

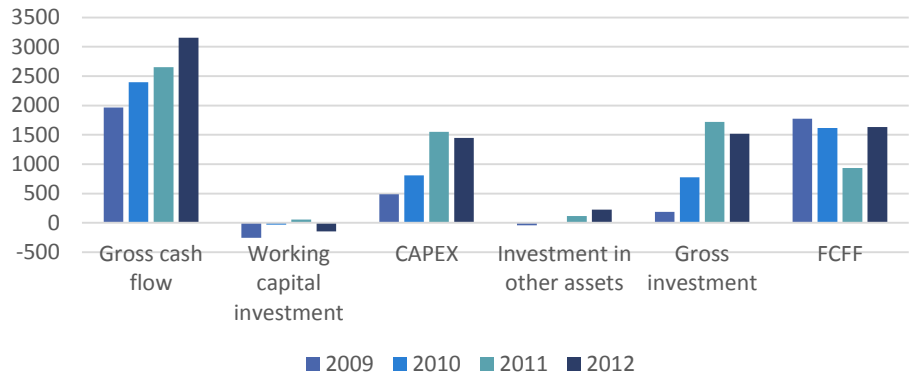
[27] FCF table is displayed in appendix.
[28] FCFF: Free cash flow to the firm.
[29] Property, plant and equipment as well as intangible assets which create value to the firm.
[30] FCFE: Free cash flow to equity holders.

The main difference between both cash flows is to whom they are delivered. The FCF to the firm goes to all equity and debt holders while the FCF to equity goes directly to equity holders because the payments or issuance of new debt has been already included as the difference between new debt issued and debt repaid. Consequently the remaining amount (FCFE) goes directly to shareholders.

The gross cash flow presents a strong growth driven by increases in NOPLAT. The working capital investment has been negative in three out of four years; the efficiency of the production cycle has improved[31]. Investments in property, plant, equipment and intangible assets have nearly doubled from year to year, reaching the peak in 2011. In year 2011, the company invested large amounts of money in new logistic centers as well as the opening of 482 stores. The net reinvestment rate[32] has been -35%, 6%, 51%, and 31% from 2008 to 2012.

The account investment in others includes current assets that are not considered operating and which are not explained by company´s notes and other fixed assets which are acquisitions.

FIGURE 16: MAIN ELEMENTS OF FCFF



Source: estimates based on Inditex´s accounts.

The detailed analysis of the FCFF is located in Appendix 1.11

Debt & equity service:

As I have said before, the free cash flow to the firm is distributed to debt holders and shareholders. This table summarizes the distribution of the FCFF to both groups across four years. Inditex maintains a large amount of negative net debt, thus interest expenses and inflows/outflows from debt are really small in relative

[31] More details in WK analysis section.

[32] Net reinvestment rate give us an idea about how much the company is reinvesting in new assets.

$$Net\ reinvestment\ rate = \frac{Gross\ investment - depreciation}{Noplat}$$

terms. In the equity service we can see the part of the cash flow that is retained in the company as cash and the payments to the shareholders. Others summarize all the information that has not been gathered by the other variables in the table. The evolution of all this magnitudes has been analyzed in other sections. Anyway, we could highlight the low debt service and the high equity service composed mainly of cash and dividends paid.

The detailed analysis of equity and debt service is in appendix 1.11.

2.3.12 Some highlights:

- Strong top line [33] and bottom [34] line growth, the main value drivers/enhancers in the past years have been fast rotations and increases in the operating margin.
- Structural stability, negative maturity periods lead to a production cycle which generates cash. This allows maintaining a negative net debt level and an excellent solvency in both, the short and long run.
- Negative financial leverage and reduction of operating leverage in the past five years.
- Strong cash flow from operations and high amount of reinvestment in the company. Positive cash generation which is retained within the company.
- Payout ratio around 58% in the past four years. Parallelism in the growth of EPS and DPS.

2.4 PROJECTIONS

2.4.1 Introduction:

All the projections shown in this section correspond to the neutral scenario. The following sections are displayed in the order calculations were made: first the profit and loss, second the balance sheet except for cash, third cash through the cash flow statement and fourth check if the cash calculated through cash flow fits with the difference between net assets and net liabilities from the balance sheet. All the projections for the neutral scenario are attached into **Appendix 2**, Appendix 2.1 for the **neutral** scenario, 2.2 for the **optimistic** scenario and 2,3 for the **pessimistic** scenario.

2.4.2 Sales, gross margin & fixed expenses

Growth in sales depends on the like for like growth[35] and growth in new space and since Inditex is a multinational organization growth will depend also on currency movements that would not be considered. LFL growth will depend on the economic growth of regions where Inditex is exposed, which are divided by the company in four main blocks: Spain, Americas, Europe excluding Spain, Asia

[33] Magnitudes in the upper part of the P&L.

[34] Magnitudes in the lower part of the P&L.

[35] Like for like growth (LFL)

and the rest of the world. Large investments of past years in logistic centers and Inditex´s online sales platform would lead to a high LFL growth in 2013 and positive stable LFL growth in the rest of our time frame.

In the neutral scenario sales have been calculated following the average from 2009 to 2012, in the first two years a 13, 50% and 13% is expected. After that, I consider stabilization towards 9, 65%. By this way, the average of the last four years coincides with the average of the next five years in 11, 31% growth.

FIGURE 17: DETAILED P&L ACCOUNT

Detailed P&L	2013E	2014E	2015E	2016E	2017E
Net sales	**18099**	**20452**	**22599**	**24836**	**27233**
Like for like	6,50%	3%	4,00%	3%	3%
Space Increase	10%	10%	9%	8%	8%
Space contribution	7,00%	10,00%	6,50%	7%	7%
Growth rate	**13,50%**	**13,00%**	**10,50%**	**9,90%**	**9,65%**

Source: estimates based on Inditex´s accounts.

In my opinion we will see in the next years an overall decrease in margins within the apparel/textile sector, Inditex will be less affected because its production is not so exposed as other apparel retailers to emerging countries. As I commented in the analysis of the sector, the era of cheap labor is to end because of inflationary pressures in the developing countries. In addition, the rapid growth in margins that Inditex has achieved in the past is not sustainable for the future. In my opinion, in the next 5 years Inditex would reach maturity and stabilize its margins

FIGURE 18: GROSS MARGIN AND REVENUES

1. Gross Margin and revenues	2013E	2014E	2015E	2016E	2017E
Revenues	**18099**	**20452**	**22599**	**24836**	**27233**
Growth rate	13,5%	13,0%	10,5%	9,9%	9,7%
Gross margin	**59,90%**	**59,00%**	**57,50%**	**59,50%**	**58,00%**
Growth rate	0,2%	-1,5%	-2,5%	3,5%	-2,5%
Fixed expenses (excluding amortization)	**6438**	**7270**	**8027**	**8815**	**9656**
Growth rate	14,6%	12,9%	10,4%	9,8%	9,5%

Source: estimates based on Inditex´s accounts.

Fixed expenses[36] include staff cost, rent cost, other operating expenses as well as other expenses. The growth rate of fixed expenses is a bit higher than the average due to the increasing cost pressures in developing countries to which Inditex is exposed.

2.4.3 Net debt and financial results

Inditex´s financial result is highly exposed to currency movement. Those movements have been ignored in the projections due to the nearly-random trend they display. I would like to remark two assumptions:

[36] The detailed calculation is in the appendix section.

The financial revenue increases because of the higher amount of cash within the company that accrues interest income in favor of the company. I have supposed the company is not going to issue new financial debt since the cash generated is more than enough to cover its investments and the payment of dividends to shareholders. The financial expenses increase because of the increase in other financial liabilities from financial instruments.

Despite my assumption by which the company will not issue new debt, the account called other debt instruments has shown an upward trend in the past years. Thus, I have decided to maintain the average growth of the past five years for this account. Taking all the above mentioned into account, the average cost of debt for the past four years coincides with the average for the next 5 years in 1,97%.

2.4.4 Tax rate:

In the following years, the policies that would be implemented to encourage employment and consumption in most of the countries in the European Union would lead to a slight decrease in taxes. That is why I assume a decrease in taxes from 24% to 23% from 2014 onwards.

2.4.5 Minorities:

Since I do not have enough information I have maintained the amount of minorities in the Balance sheet. In the income statement, I have calculated the percentage of net result which is paid to minorities and maintained it for the future.

2.4.6 Capital expenditure, investment in other fixed assets & depreciation

Capital expenditure in our case refers to amounts invested in tangible and intangible assets. In the presentation to shareholders Inditex estimates that CAPEX for the next year will be around 1.476 million euros.

To project CAPEX, I have used the ratio CAPEX/EBITDA related to the growth in space forecasted for that year. For instance, in 2014 the company is supposed to expand its space in a similar proportion to 2013, thus we can calculate CAPEX using the same CAPEX/EBITDA as 2013 but by multiplying it by the EBITDA of 2014. The calculation can be summarized as follows:

$$CAPEX2014 = \frac{CAPEX13}{EBITDA13} * EBITDA14$$

Once we have got the overall CAPEX, we have to decide which part goes to tangibles and which part goes to intangibles. With respect to intangible assets, I have used the average growth rate of the past five years. This increase in intangible assets is justified by new launches of online sales platforms. The rest is for the tangible assets, this investment would be used to open new stores and achieve the forecasted space growth.

The investment in other fixed assets has been calculated according to the average growth rate of the past five years. I do not have enough information to project financial investments so I have decided to maintain the amount constant.

Depreciation has been calculated according to the average of the ratio amortization/sales. In fact, it would have been a better measure amortization/ gross assets but the amount of gross assets is not displayed in Inditex´s balance sheets. In any case, the ratio looks consistent in terms of historical data; it remains constant in 5% across the years. Thus, amortization has been calculated by multiplying these Amortization/sales past average times the sales of the projected year. Table appendix

2.4.7 Net position in tax liabilities

Correspond to the net amount of deferred tax assets and liabilities of past years, since it is negative and is on liabilities side it is a tax asset. It has been decreased in 16, 88 per years to offset this tax asset at the end of our time frame.

2.4.8 Earnings per share & Dividends payout:

Once the main elements of the P&L account have been projected, we got to the net result. If we divide this net result (after minorities payment) by the number of shares we get EPS. Two explicit assumptions have been made from 2013 onwards:

Since the firm does not need external financing because it has a strong-cash generating production cycle, the company will not issue new shares, thus the amount of shares would remain unchanged.

The payout ratio, the percentage of EPS that is paid to shareholders as dividends, would remain unchanged for 2013 and 2014. I have assumed that opportunities for growth would start eroding in 2015-2017 and consequently the company would increase the payout ratio to 75% in these two years, a closer figure to its closest competitor H&M.

2.4.9 Working capital

The working capital is composed by account receivables, stocks and account payables. This company does not need to keep a minimum level of cash to finance its operating cycle, thus operating cash is assumed to be cero. I have forecasted the stock period, collection period and payment period based on their historical average. Once this has been done, all the accounts which composed the working capital section in the balance sheet have been calculated solving the average period's formulas for the value of its respective accounts. For instance, in the case of receivables for year 2013:

$$average\ period\ of\ collections = \frac{average\ receivables_{12,13}}{revenues_{13}} * 365$$

If we solve for $receivables_{13} = \left(\frac{(average\ period\ of\ collections_{13} * revenues_{13} * 2)}{365}\right) - receivables_{12}$

As we have said before, in my opinion the company has reach stability in margins and in terms of operating efficiency. Thus, I have decided to maintain the periods in line with those of the previous years.

2.4.10 Equity:

Equity has been projected for each year as the equity of the preceding period plus the part of the net income which is kept inside the company. This means:

$$Equity_{t+1} = Equity_t + Net\ result_{t+1} - Dividends_{t+1}$$

2.4.11 Cash:

So far, we have calculated all the elements of the profit and loss account and all the elements in the balance sheet with the exception of cash. Cash has been calculated through the cash flow statement. The cash calculated fits with 0 errors with the difference between net assets and net liabilities in the balance sheet.

2.5 SCENARIOS

For the discounted cash flow valuation three main scenarios have been foreseen. An **optimistic scenario** in which the company is able to maintain the average growth from 2010, 2011 and 2012 in sales and margins, a **neutral scenario** in which the company initiates a steady transition to maturity[37] and a **pessimistic scenario** in which the transition to maturity is faster, the increase in retail space does not contribute like in the past years and the company is seriously affected by the European economic crisis in terms of LFL. Ceteris paribus, the only directly affected variables are margins, sales and terminal values.

FIGURE 19: INPUTS FOR SCENARIO PLANNING

Scenario	Variable	2013E	2014E	2015E	2016E	2017E	Average
Optimistic scenario	Growth in sales	15,80%	13,90%	12,00%	11,00%	11,85%	**12,91%**
Neutral scenario	Growth in sales	13,50%	13,00%	10,50%	9,90%	9,65%	**11,31%**
Pesimistic scenario	Growth in sales	7%	6%	8%	6%	7%	**6,80%**
Optimistic scenario	Growth in margins	1,30%	2,00%	1,50%	1,00%	0,50%	**1,26%**
Neutral scenario	Growth in margins	0,24%	-1,50%	-2,54%	3,48%	-2,52%	**-0,57%**
Pesimistic scenario	Growth in margins	-2,94%	-0,86%	-1,74%	2,65%	-3,02%	**-1,18%**

Source: estimates based on Inditex´s accounts.

2.6 VALUATION

2.6.1 Free cash flow to the firm

FIGURE 20: INPUTS TO COMPUTE THE DISCOUNTED CASH FLOW.

[37] The company is able to maintain a high growth in sales but declining along time and margins remain more or less on the 2012 figure.

Optimistic scenario	FCFF	2.095	2.992	2.866	4.640	4.506	**3420**
Neutral scenario	FCFF	1940	2930	1859	3917	3937	**2917**
Pesimistic scenario	FCFF	1.501	2.012	1.813	2.547	3.585	**2292**
Optimistic scenario	Terminal growth					3,24%	**3,24%**
Neutral scenario	Terminal growth					2,59%	**2,59%**
Pesimistic scenario	Terminal growth					1,95%	**1,95%**
Optimistic scenario	Discount rate					7,52%	**7,52%**
Neutral scenario	Discount rate					7,52%	**7,52%**
Pesimistic scenario	Discount rate					7,52%	**7,52%**

Source: estimates based on Inditex´s accounts.

I have calculated the FCF to the firm in the different scenarios. This free cash flow has to be delivered to equity holders (dividends and retained earnings) and to debt holders through the payment of interests. Thus, we may discount this cash flow to the weighted average return that those stakeholders require from the company.

2.6.2 Discount rate

This weighted average return in calculated by weighting the cost of debt after taxes[38] taking into account the amount of financial debt[39] compared to the total funds plus the cost of equity weighted by the proportion it represents. In the following paragraphs I will explain briefly the calculations followed to get the cost of debt and the cost of equity. All the calculation referred to the discount rate are in **appendix 3**

$$Rwacc = \left((ce_{without\ contry\ risk} + country\ risk) * \frac{E}{(D_f + E)}\right) + \left(k_f * (1-t) * \frac{E}{(D_f + E)}\right)$$

Cost of equity: Inditex holds a negative net debt position[40], therefore the amount of equity is extremely high relative to the amount of debt, anyway we will use the weighted average cost of capital to avoid mistakes but in my opinion debt is negligible in our case and we could use directly cost of equity.

The cost of equity has been calculated through the CAPM[41] model. I have not considered the Spanish market as the host market to calculate the β and the risk free rate. Inditex is a company which is vastly diversified across European countries; Spain only represents a 20% of the sales. If we compare this figure with the total percentage of sales which Europe represents, we could not treat Inditex as a pure Spanish company. According to this idea I have used the risk

[38] We reduce the cost of debt because the tax shield that generates.

[39] Financial debt includes liabilities (current & non current) which accrue interest against the company.

[40] If you want to see the historical balance sheet composition and its evolution in the past five years, you can find all the information available in the section "Structure ratios".

[41] CAPM: A model that describes the relationship between risk and expected return and that is used in the pricing of risky securities.

$$Ce = rf + (Em - rf) * \beta$$

free rate from ten year German bund[42] 1,39% and the β of Inditex´s share regressed against the Eurostoxx 50, the result for the β is 0,64. This Beta has been calculated using a two year time frame of daily returns for both, the share and the Eurostoxx 50 market portfolio. The average return of the market portfolio has been calculated by taking a twelve years average and the result is 7, 23%. After the estimation of those parameters, the equation is as follows:

$$\boldsymbol{ce = 1,39\% + (7,23\% - 1,39\%) * 0,6362 = 5,105\%}$$

Once the cost of equity has been obtained through the CAPM, we must include the risk premium for the country. As I have said, the company has a very high degree of international diversification. However, an important part of the production & logistics is located within in Spain. Thus, I have decided to include into the cost of equity a country risk premium calculated as the CDS spread between the German bund and the Spanish ten year bond.

$$ce\ adjusted\ by\ country\ risk = Ce_{CAPM} + CDS_{S,G} = 5{,}105\% + 2{,}88\% = 7{,}98\%$$

The cost of equity adjusted to reflect country risk will be the one I will use in the weighted average cost of capital calculation.

Cost of debt**:** The cost of debt has been calculated dividing the financial expenses by the total amount of debt of the previous period[43]. The financial expenses disclosed by the company include foreign exchange losses, this expenses have been taken out[44] to calculate the cost of debt. In addition, I have considered three main accounts to calculate total debt: short term financial debt with explicit cost, long term financial debt with explicit cost and other financial liabilities from other financial instruments. Since they are not a real financial cost, I have not taken into account net tax liabilities and provisions. Through this process I got a cost of debt in year 2012 equal to 2,13%. After discounting the tax shield[45]

The net debt cost of debt & total debt analysis in the <u>appendix 1.9.</u>

Weighted average cost of capital:

$$Rwacc = \left((ce_{without\ contry\ risk} + country\ risk) * \frac{E}{(D_f + E)}\right) + \left(k_f * (1-t) * \frac{E}{(D_f + E)}\right)$$

[42] The risk free rate of the German bund and the CDS between Spain and Germany has been taken from Bloomberg webpage at may 21 of 2013.

[43] I asume that the debt which has generated the costs is the one from the previous period. An average figure could have been also taken.

[44] Foreign exchange losses are taken out because it is not remuneration to debt holders and could distort the result, making it unusually high.

[45] The after tax cost of debt is equal to Kf*(1-t)=1,61%. The tax rate used is equal to 24%.

Once we have got the required return from equity resources and debt resources, the next step is to calculate the weighted average of both. The weight that will be assigned to each source will depend on the amount of debt and equity in 2012. The amount of equity in 2.012 is equal to 8.482 million and the amount of debt 664 millions. Hence, the equation is as follows:

$$Rwacc = \left(5{,}10\% + 2{,}88\%) * \frac{8.482}{(8.482 + 664)}\right) + \left(2{,}13\% * (1 - 24\%) * \frac{664}{(8.482 + 664)}\right) = 7{,}52\%$$

2.6.3 Terminal values:

The company is assumed to follow a going concern[46], this means that we have to include those cash flows that would be generated beyond our time horizon. To solve this problem we are going to assume a constant growth model, the main input which this model needs is a constant growth rate to perpetuity.

This growth rate to perpetuity can be estimated taking into account the ROIC and the reinvestment rate, if we assume that the company will grow according to this formula:

$$g = NRR * ROIC$$

Where: g= growth rate; NRR= net reinvestment rate; ROIC = return on investment capital.

This net reinvestment rate is based on the average of the historic reinvestment rate from 2008 to 2017. In principle, I calculated the ROIC by using the average ROIC of the sector. However, the result was really high, around 50%. I do not think this figure could be sustainable in the long run, thus I have decided to use a 25% in the optimistic scenario, a 20% in the neutral and a 15% in the pessimistic scenario. According to the arbitrage theory, if a sector earns an abnormal return it will act as a magnet attracting new companies. Hence, competition will increase and the ROIC would tend to normal levels. If we use this two inputs we get a 3,24% growth in the optimistic scenario, a 2,59% in the normal scenario and a 1,95% in the pessimistic scenario. In my opinion, these figures seem reasonable since no company can grow forever more than the overall international economy.

Now we have all the elements to compose the terminal value:

$$TV_t = \frac{FCFF_{T-1} * (1 + g)}{(rwacc - g)}$$

Where: g= growth rate ; TV_t= terminal value in year t; rwacc= weighted average cost of capital.

[46] The company is assumed to last forever.

2.6.4 Discounted free cash flow valuation:

Until here we have estimated all the parameters that are required to run the discounted free cash flow model:

$$Total\ value\ of\ the\ company = \frac{FCFF_1}{(1+rwacc)^1} + . + \frac{FCFF_5}{(1+rwacc)^5} + \frac{FCFF_5 * (1+g)}{(rwacc-g)} * \frac{1}{(1+rwacc)^6}$$

After obtaining the value of the company we must subtract the value of outstanding liabilities, I have subtracted the value that liabilities had in year 2012. The total financial liabilities are composed by short term debt, long term debt and other financial liabilities from other debt instruments. Provisions and net tax position are not taken into consideration.

Once we get the value of the company subtracting debt in the three scenarios, we can divide this value by the number of shares outstanding at the end of 2012. The result obtained is the price per share in each scenario which is 133,36 euros in the optimistic one, 102,47 euros in the neutral and 81,40 euros in the pessimistic scenario. We do not really know the distribution of those values and it would be difficult to infer it since we only have been treating information from the past five years. Thus, I have decided to compute the expected value of the price per share according to three main distributions: The simplified β, the triangular distribution and the uniform distribution.

FIGURE 24: EXPECTED SHARE PRICE UNDER THE DIFFERENT DISTRIBUTION & CONFIDENCE INTERVALS

Expected value of the company, variance, standard deviation & confidence interval

Assumed distribution	Degree of confidence	Expected value share price	Variance	Standard deviation	Upper point	Lower point
Simplified B distribution	68,20%	**104,11**	75,00	8,66	112,77	95,45
Simplified B distribution	95,40%	**104,11**	75,00	8,66	121,43	86,79
Simplified B distribution	99,60%	**104,11**	75,00	8,66	130,09	78,13
Triangular distribution	68,20%	**105,75**	113,84	10,67	116,42	95,08
Triangular distribution	95,40%	**105,75**	113,84	10,67	127,08	84,41
Triangular distribution	99,60%	**105,75**	113,84	10,67	137,75	73,74
Uniform distribution	68,20%	**107,38**	224,99	15,00	122,38	92,38
Uniform distribution	95,40%	**107,38**	224,99	15,00	137,38	77,38
Uniform distribution	99,60%	**107,38**	224,99	15,00	152,38	62,38

By the way I have calculated the variance and the standard deviation to have a measure of uncertainty and to infer the range of possible values in which the stock will move. All those values are possible and valid as an estimate of the value of the company. However, to estimate some multiples I will assume the lowest value generated by those distributions (the expected value of the company under the β distribution) in order to apply a conservative approach to this valuation. Bear in mind, that this is just my judgment and there is no scientific argument which supports it.

As a conclusion, depending on the distribution the expected value for the company will lie between 104,11 euros and 107,38 euros.

2.6.5 Measures of risk

In this section I would like to talk about two main issues, the risk of the terminal value and the confidence intervals for the expected value of the share.

We have talk previously about terminal value, but what we have not said is that valuations are extremely sensible to the assumptions made about the terminal values. In my case, nearly an 84% of the discounted value of the firm comes from the terminal value. Therefore it is hereby stated the volatility of the value with respect to the discounted average cost of capital and the growth rate to perpetuity. The sensitivity analysis has been computed for all the scenarios. The changing variables, the rwacc and the growth, have been modified in +/. 0,5% with respect to the value assumed in each scenario. By this way, the range of values for the rwacc in all scenarios goes from 6,02% to 9,02% taking as the median the rwacc for all used in the three scenarios (7,52%). With respect to growth to perpetuity, I have used a range from 1,74% to 4,74% in the optimistic scenario taking as the median a 3,24%, a range from 1,09% to 4,09% in the neutral scenario taking as the median a 2,59% and a range from 0,45% to 3,45% in the pessimistic scenario taking as the median a 1,95%. Note that when the sensitivity analysis coincides with the variables employed in each scenario the price per share from the sensitivity table (the one in dark blue) coincides with the price per share calculated in each scenario. Once this has been understood, you may have realized that the table shows a huge range of values for the share depending on the evolution of the above mentioned variables. Thus, this analysis is relevant to see in each scenario, according to my judgment, the values per share with the highest likelihood. The values are in different colors according to their likelihood, therefore the most probable is the one in dark blue followed by the ones in light blue. The values with lower likelihood are not highlighted in any color. In the optimistic scenario the range of the value per share goes from 108,74 to 173,03 euros, in the neutral from 85,61 to 128,05 euros and in the pessimistic scenario from 69,01 to 99,31 euros.

As I have said in the previous section, the expected value of the share has been computed assuming three different distributions. This allows us to compute the variance and the standard deviation as a measure of the risk assumed. To give a range of value, confidence intervals have been calculated according to the desired level of confidence, which in our case are 1δ=68,2% degree of confidence, 2δ= 95,40% and 3 δ=99,60%.

Therefore, for the distribution the distribution we will use, the β distribution, the range of values for the share goes from 95,45 to 112,77 euros at 1 δ, from 121,43 to 86,79 euros at 2 δ and 130,09 to 78,18 euros at 3 δ.

2.6.6 Relative valuation

In this section we are going to use an alternative method to the discounted free cash flow. Relative valuation approach tries to assess if the company is overvalued, undervalued or trading at fair price by comparing company´s

multiples with its estimated multiples and with the competitors. We must bear in mind, that in our case, the unique business model of Inditex, its high degree of international diversification and strong top line and bottom line growth make the company somewhat different with respect to its peers. The companies which according to my judgment are the closest to Inditex are: Next PLC, Abercrombie & Fitch, Hennes & Mauritz, Gap inc.. and fast retailing co. Those companies have been selected on the basis of three main criteria: its International profile, its large volume of sales and because they serve a similar type of customer. With no doubt, Inditex´s closest competitor is H&M. Three main multiples have been used to assess the value of the company: price to earnings multiple, price to sales multiple and price to book value multiple.

This analysis would be based on a brief comment on the evolution of the different past multiples, of both Inditex and for the sector. A comparison of Inditex against its closest competitor(H&M) and the analysis of the estimated multiple against the actual multiple.

Price to sales multiple.

As we can see the company has always been above the average with respect to the price paid for a competitor's unit of sales. A high price to sales compared to the sector can be considered as a sigh of overvaluation, however we may take into account that what investors desire are cash flows and earnings. Companies which have high sales but lose money in the bottom line of the P&L would tend to have a lower price (ceteris paribus) with respect to those obtaining positive or larger earnings. Thus, for those companies the price to sales would be lower compared to companies with big earnings. In my opinion, the overvaluation sign that this multiple bring to us is denied by the track record. We can see that in 2008 the multiple was above the one from the sector, despite this fact the company has nearly tripled its quotation at that time (around 33 euros)

In my opinion, a more interesting comparison is the one from the company against H&M. We can see in all our time horizon that the market capitalized the sales from H&M more than the ones from Inditex. In 2009 The multiple showed a clear sign of undervaluation with respect to H&M, since then, the multiple is approaching more and more to H&M. In 2012 there was still a gap which I think in the near future will be corrected. My forecast in the short run is that the market will capitalize the sales from Inditex slightly more than the sales from H&M. My main argument is that H&M lacks the privileged position that Inditex holds in high growth markets and will suffer cost pressures from their suppliers, this will translate into worse results compared to Inditex´s ones.

The estimated multiple which has been calculated taking the expected price per share from the simplified β distribution leads to an estimated multiple of 4,04 while the current market multiple is 3,98. Thus, the market is more or less in line with my valuation.

Price to earnings ratio.

The main advantage of this ratio lies on taking into account earnings per share, which in fact is one of the main drivers in the value of any stock. In our case, the main problem with this ratio is that we are comparing companies under different accounting regulations. In addition, earnings are affected by accounting decisions like provisions, amortizations… The market has capitalized less the earnings from Inditex than the ones from its peers over the past five years, this could be due to Inditex´s extremely high performance which beat market expectations. However, it seems that the market has discounted all this past growth and the company is right now trading at a higher PER than its peers, according to infinancials[47] the average PER in 2013 is 18,72 for the sector a PER around 22,03 for H&M.

The estimated multiple which has been calculated taking the expected price per share from the simplified β distribution leads to an estimated multiple of 27,49 while the current market multiple is 26,88. As before, the multiple display a very small undervaluation sign.

Price to book value ratio.

In terms of track record the company has been traded above the market. With respect to H&M, we can see that as time passed by the company has approach more and more to the value of H&M. The estimated multiple which has been calculated taking the expected price per share from the simplified β distribution leads to an estimated multiple of 7,65 while the current market multiple is 7,48. As in all the previous cases the multiple is in line with my estimated multiple showing very small signs of undervaluation.

2.7 CONCLUSION

Despite the fact that the company has presented a strong track record and excellent financial magnitudes, in my opinion, all the future growth has already been discounted in the price of the share and the price is correct. On May 22, Inditex was **quoting** in **101,8 euros**. According to my **estimated price** there is a only a 2,21% upside potential from this price to **104,11 euros**. All the multiples confirm this slight undervaluation when it is compared the actual **multiple** with the estimated one. The share book value was 13,61 in 2012.

To end up, my recommendation is to **hold.**

[47] Note that all the historic multiples has been taken from infinancials except for Price to sales multiples and all the Inditex´s multiples. Estimations for PER and PBV for the sector and for H&M has been also taken from this webpage.

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APPENDIX 1: FINANCIAL ANALYSIS: TRACK RECORD

1. INDITEX´S ANNUAL REPORT BALANCE SHEET, NET BALANCE SHEET & PROFIT AND LOSS ACCOUNT.

Balance Sheet **Source: Annual reports INDITEX**

EUR millions	2008	2009	2010	2011	2012
CURRENT ASSSETS	3264	3944	5203	5437	6692
Stock	1055	993	1215	1277	1581
Receivables	585	422	482	531	848
Income tax asset	15	16	17	17	59
Other	142	94	56	145	361
Cash	1466	2420	3433	3467	3843
FIXED ASSETS	**4513**	**4392**	**4624**	**5522**	**6198**
Tangibles	3451	3307	3414	4083	4745
Intangibles	680	665	687	832	820
Financial investments	14	15	9	10	4
Deferred tax	203	234	299	356	383
Other	165	170	213	241	247
TOTAL ASSETS	**7777**	**8335**	**9826**	**10959**	**12890**
CURRENT LIABILITIES	**2391**	**2305**	**2675**	**2703**	**3485**
Payables	2073	2103	2420	2475	3243
Financial debt	234	35	42	24	76
Income tax payable	84	167	213	204	165
NON CURRENT LIABILITIES	**637**	**660**	**728**	**801**	**923**
Financial debt	13	5	4	2	4
Deferred tax liabilities	214	173	173	183	192
Provisions	**102**	**127**	157	147	144
Others (sale of call options)	308	355	395	469	583
EQUITY	**4749**	**5371**	**6423**	**7456**	**8482**
Equity attributable to the group	4722	5329	6386	7415	8446
Minorities	27	41	37	41	36
TOTAL FUNDS	**7777**	**8335**	**9826**	**10959**	**12890**

Net BS	2008	2009	2010	2011	2012
Stock	1055	993	1215	1277	1581
Receivables	585	422	482	531	848
Payables	2073	2103	2420	2475	3243
Working capital	**-433**	**-689**	**-723**	**-667**	**-814**
Fixed assets	**4452**	**4251**	**4380**	**5311**	**6177**
Tangibles	3451	3307	3414	4083	4745
Intangibles	680	665	687	832	820
Financial investments	14	15	9	10	4
Other	307	264	269	386	608
Net asets	**4019**	**3562**	**3657**	**4644**	**5363**
Financial debt	234	35	42	24	76
Cash	1466	2420	3433	3467	3843
Net S.T Debt	**-1232**	**-2385**	**-3391**	**-3443**	**-3767**
L.T .debt (derived from loans)	13	5	4	2	4
Net position on tax liabilities	79	90	70	13	-84
Other debt instruments	308	355	395	469	583
Provisions	102	127	157	147	144
Fixed liabilities	**502**	**577**	**625**	**631**	**647**
Equity attributable to the group	4722	5329	6386	7415	8446
Minorities	27	41	37	41	36
Equity	**4749**	**5371**	**6423**	**7456**	**8482**
TOTAL FUNDS	**4019**	**3562**	**3657**	**4644**	**5363**

Analytic P&L account

	2008	2009	2010	2011	2012
Net sales	**10407**	**11084**	**12527**	**13793**	**15946**
Growth in sales		7%	13%	10%	16%
Cost of goods sold	**-4493**	**-4756**	**-5105**	**-5612**	**-6417**
Supplies	-4540	-4756	-5105	-5675	-6721
Inventory var	48	0	0	62	304
Gross profit	**5914**	**6328**	**7422**	**8180**	**9529**
Gross margin	**57%**	**57%**	**59%**	**59%**	**60%**
OPEX	-3708	-3953	-4452	-4919	-5605
Depreciation	-578	-646	-676	-736	-796
Staff cost as	-1703	-1792	-2009	-2234	-2548
rent cost	-1028	-1134	-1272	-1399	-1530
Other operating expenses	-976	-1027	-1171	-1286	-1527
Total OPEX as % sales	36%	36%	36%	36%	35%
Growth in OPEX		7%	13%	10%	14%
Other expenses	**-19**	**-1**	**-4**	**-3**	**-12**
EBITDA	**2187**	**2374**	**2966**	**3258**	**3913**
Operating P/L (EBIT)	**1609**	**1728**	**2290**	**2522**	**3117**
Financial result	**-22**	**4**	**31**	**37**	**14**
Financial revenue	**46**	**46**	**43**	**55**	**42**
Interest income	26	8	21	30	24
foreign exchange gains	20	37	22	24	18
Dividends	0	0	0	0	0
Financial expense	**-68**	**-42**	**-12**	**-18**	**-27**
Interest expense	-9	-9	-4	-4	-3
other financial expenses	0	0	0	-10	-8
Foreign exchange losses	-59	-33	-8	-4	-17
Income before taxes	**1587**	**1732**	**2322**	**2559**	**3131**
Taxes	-325	-410	-580	-613	-764
Income after taxes	**1262**	**1322**	**1741**	**1946**	**2367**
Minorities	-8	-8	-9	-13	-6
Net income attribuable to the parent	**1253,45**	**1314,35**	**1731,83**	**1932,29**	**2360,76**
Number of shares	621,711085	623,109136	623,109136	623,227952	623,3304
EPS (euros)	**2,02 €**	**2,11 €**	**2,78 €**	**3,10 €**	**3,79 €**
DPS	**1,06 €**	**1,06 €**	**1,21 €**	**1,61 €**	**1,81 €**

Simplified P&L Account	2008	2009	2010	2011	2012
Net sales	10407	11084	12527	13793	15946
Cost of goods sold	4493	4756	5105	5612	6417
Gross profit	**5914**	**6328**	**7422**	**8180**	**9529**
General & Admin exp	3727	3954	4456	4923	5616
EBITDA	**2187**	**2374**	**2966**	**3258**	**3913**
Depreciation	578	646	676	736	796
EBIT	**1609**	**1728**	**2290**	**2522**	**3117**
Financial result	-22	4	31	37	14
EBT	**1587**	**1732**	**2322**	**2559**	**3131**
Taxes	-325	-410	-580	-613	-764
Net profit	**1262**	**1322**	**1741**	**1946**	**2367**

1.1 P&L MARGINS

Risk & return					
Gross margin	57%	57%	59%	59%	60%
EBITDA/Revenues	21%	21%	24%	24%	25%
EBIT/Revenues	15%	16%	18%	18%	20%
Net profit/Revenues	12%	12%	14%	14%	15%

1.2 ROE & ROIC

		2009	2010	2011	2012
ROE		**27,84%**	**32,42%**	**30,29%**	**31,75%**
ROIC		**32,83%**	**48,22%**	**52,43%**	**50,74%**
EBIT	1609	1728	2290	2522	3117
Tax rate	20%	24%	25%	24%	24%
NOPLAT	**1.279**	**1.319**	**1.718**	**1.917**	**2.356**
Net assets		4019	3562	3657	4644
Leverage factor		**-4,98%**	**-15,80%**	**-22,15%**	**-18,99%**

Financial leverage		2009	2010	2011	2012
ROIC		32,83%	48,22%	52,43%	50,74%
ROIC-Kfin result*(1-T)		32,43%	46,93%	51,42%	50,36%
kfin result		1%	2%	1%	1%
kfin result(1-t)		0%	1%	1%	0%
Interest		-4	-31	-37	-14
Total net debt -1		-730	-1808	-2766	-2812
Net position on S.T.D		-1232	-2385	-3391	-3443
Fixed liabilities		502	577	625	631
D/E		-15%	-34%	-43%	-38%
ROE		**27,84%**	**32,42%**	**30,29%**	**31,75%**
Error		0,00%	0,00%	0,00%	0,00%

1.3 DUPONT ANALYSIS

Dupont analysis		2009	2010	2011	2012
ROE		**28%**	**32%**	**30%**	**32%**
Net profit/EBT		76%	75%	76%	76%
EBT/EBIT		100%	101%	101%	100%
EBIT/ Sales		16%	18%	18%	20%
Sales/ Assets		276%	352%	377%	343%
Assets/ Equity		85%	66%	57%	62%

1.4 STRUCTURE RATIOS BALANCE SHEET

Analysis: Structure ratios	2008	2009	2010	2011	2012
Working capital	-11%	-19%	-20%	-14%	-15%
Fixed assets	111%	119%	120%	114%	115%
Net s.t debt	-31%	-67%	-93%	-74%	-70%
L.T Debt	13%	16%	17%	14%	12%
Equity	118%	151%	176%	161%	158%

1.5 WORKING CAPITAL ANALYSIS

Working capital analysis		2009	2010	2011	2012
Avg receivables		504	452	506	689
Revenues		11084	12527	13793	15946
Collecting period		17	13	13	16
1 day collection		30	34	38	44
Avg stock		1024	1104	1246	1429
Cost of goods sold		4756	5105	5612	6417
Avg days of stock		79	79	81	81
1 day of stock		13	14	15	18
Avg Payables		2088	2261	2447	2859
Purchases		4693	5327	5675	6721
Avg days of payment		162	155	157	155
1 day of payment		13	15	16	18

Maturity period		**-67**	**-63**	**-63**	**-58**
Working capital	**-433**	**-689**	**-723**	**-667**	**-814**

Net debt & cost of debt	2008	2009	2010	2011	2012
ST Debt	234	35	42	24	76
-Cash	1466	2420	3433	3467	3843
Net ST Debt	**-1232**	**-2385**	**-3391**	**-3443**	**-3767**
LT Debt derived from loans	13	5	4	2	4
Other financial liabilities from financial instruments	308	355	395	469	583
Total net debt	**-911**	**-2025**	**-2993**	**-2972**	**-3179**
S.T.D+L.T.D	556	395	441	495	664
Financial expenses from debt instruments		**9**	**4**	**14**	**11**
Cost of debt		**2%**	**1%**	**3%**	**2%**
Average		**1,97%**			

1.6 BREAKEVEN POINT OVER EBITDA & SALES

Breakeven point	2008	2009	2010	2011	2012
Variable expenses	4493	-4756	-5105	-5612	-6417
Revenues	10407	11084	12527	13793	15946
Gross margin	56,83%	57,09%	59,25%	59,31%	59,76%
Fixed expenses	3727,384	3953,82	4455,815	4922,724	5616,361
BEP over EBITDA	**6559**	**6925**	**7520**	**8300**	**9398**
Position over sales	**159%**	**160%**	**167%**	**166%**	**170%**
OPEX+ Depre+Fin exp	4327,303	4595,839	5100,438	5621,384	6398,349
Breakeven over profit	**7614,515006**	**8049,61654**	**8608,317403**	**9477,972511**	**10706,85102**
Position in t of sales	**137%**	**138%**	**146%**	**146%**	**149%**

1.7 OPERATING LEVERAGE

Operating leverage	2008	2009	2010	2011	2012
Net sales (Dec 10%)	9366	9975	11274	12413	14352
EBIT	1017	1096	1548	1704	2164
Net sales	10407	11084	12527	13793	15946
EBIT	1609	1728	2290	2522	3117
Change in sales	-10%	-10%	-10%	-10%	-10%
change in EBIT	-37%	-37%	-32%	-32%	-31%
Operating leverage	**3,68**	**3,66**	**3,24**	**3,24**	**3,06**

1.8. DETAILED CASH FLOW

CF Statement	.+ sign cash inflow, negative sign cash outflow				
EUR m	**2008**	**2009**	**2010**	**2011**	**2012**
1. NOPLAT		**1.319**	**1.718**	**1.917**	**2.356**
Tax rate		24%	25%	24%	24%
2. Adjustments		**712**	**734**	**740**	**876**
. Depreciation		*646*	*676*	*736*	*796*
. FOREX		*30,665*	*-29,681*	*-29,218*	*-14,291*
. Provisions		*25,234*	*29,556*	*-9,292*	*-2,987*
. others		*10,074*	*58,601*	*42,437*	*97,584*
1+2 = Gross cash flow		**2031,02**	**2452,16**	**2656,99**	**3232,75**
. Stock		***62***	***-222***	***-62***	***-304***
. Account receivables		***164***	***-60***	***-49***	***-317***
. Account payables		***30***	***317***	***56***	***768***
3. Change in working capital		**256**	**34**	**-56**	**147**
CFO= GCF +3		**2287**	**2487**	**2601**	**3380**
1.Tangible assets	3451	3307	3414	4083	4745
2.Intangible assets	680	665	687	832	820
3.Others	307	264	269	386	608
Total FA= 1+2+3	4437	4236	4371	5301	6173
CAPEX = Variation FA + Depreciation		**-487**	**-806**	**-1549**	**-1446**
Variation in other FA		43	-5	-117	-222
CFI		**-444**	**-811**	**-1666**	**-1668**
1. Financial result		2,88673868	23,33822302	28,13443516	10,68152597
2.1 S.T Debt	*234*	*35*	*42*	*24*	*76*
2.2. L.T Debt	*13*	*5*	*4*	*2*	*4*
.1+.2 Total debt	*247*	*40*	*46*	*25*	*81*
2. Change in debt = Variation TD		**-207**	**6**	**-21**	**56**
3. Dividends	**-661,556**	**-662,09**	**-751,357**	**-1003,877**	**-1129,769**
4. Minorities change		**14**	**-4**	**4**	**-5**
5.1 Net position on tax liabilities	*79*	*90*	*70*	*13*	*-84*
5.2 Financial assets	*14*	*15*	*9*	*10*	*4*
5.3 Other financing liabilities	*308*	*355*	*395*	*469*	*583*
.1-.2+.3 Total	*373*	*429*	*455*	*473*	*495*
5.Changes in Other financial liabilities		**57**	**26**	**18**	**22**
6.Other movements in equity		**-93**	**38**	**74**	**-289**
CFF		**-889**	**-662**	**-902**	**-1336**
Cash variation BS		954	1013	33	376
Cash variation CFS		954	1013	33	376
Error		0	0	0	0

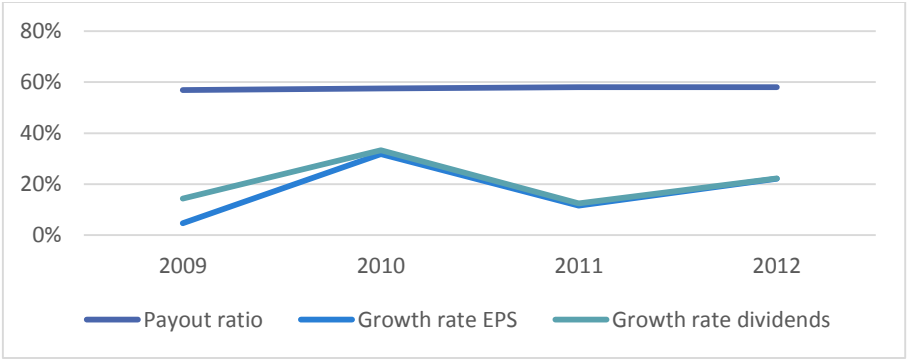
1.9. DEBT ANALYSIS, NET DEBT & COST OF DEBT.

3. Net Debt and cost of debt	2008	2009	2010	2011	2012
ST Debt	234	35	42	24	76
-Cash	1466	2420	3433	3467	3843
Net ST Debt	**-1232**	**-2385**	**-3391**	**-3443**	**-3767**
LT Debt derived from loans	13	5	4	2	4
Other financial liabilities from financial instruments	308	355	395	469	583
Total net debt	**-911**	**-2025**	**-2993**	**-2972**	**-3179**
S.T.D+L.T.D	556	395	441	495	664
Financial expenses from debt instruments		**9**	**4**	**14**	**11**
Cost of debt		**2%**	**1%**	**3%**	**2%**

1.10 DIVIDEND PAYOUT, EARNINGS PER SHARE & RETENTION RATIO.

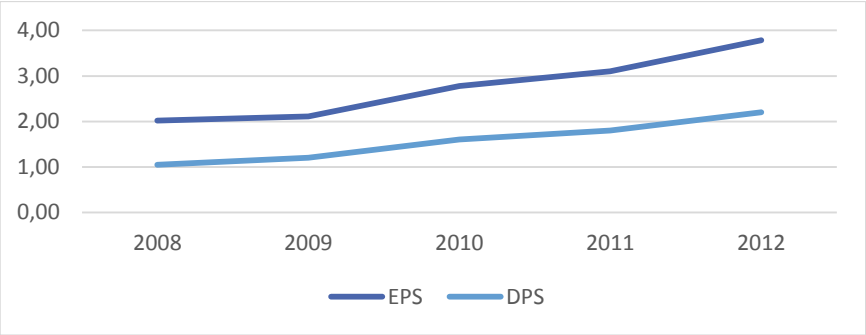
6.Dividend Payout	2008	2009	2010	2011	2012
Net income attribuable to the parent	1253,71	1314,62	1732,09	1932,55	2361,01
Number of shares	621,71	623,11	623,11	623,23	623,33
EPS (euros)	**2,02**	**2,11**	**2,78**	**3,10**	**3,79**
Growth rate		**5%**	**32%**	**12%**	**22%**
DPS	**1,1**	**1,2**	**1,6**	**1,8**	**2,2**
Growth rate		**14%**	**33%**	**13%**	**22%**
Payout ratio	**52%**	**57%**	**58%**	**58%**	**58%**
Retention ratio	48%	43%	42%	42%	42%

PAYOUT RATIO, GROWTH IN EARNINGS PER SHARE AND GROWTH IN DIVIDENDS.



Source: estimates based on Inditex´s accounts.

FIGURE 17: EARNINGS PER SHARE & DIVIDENDS PER SHARE EVOLUTION.



Source: estimates based on Inditex´s accounts.

1.11 FREE CASH FLOW.

Free cash flow	2008	2009	2010	2011	2012
1. NOPLAT		**1319**	**1718**	**1917**	**2356**
Tax rate		0	0	0	0
2. Adjustments		**646**	**676**	**736**	**796**
. Depreciation		*646*	*676*	*736*	*796*
1+2 = Gross cash flow		**1965**	**2394**	**2653**	**3152**
Investments					
. Stock	0	62	-222	-62	-304
. Account receivables	0	164	-60	-49	-317
. Account payables	0	30	317	56	768
Change in Working capital	0	256	34	-56	147
1. Working capiral investment		**-256**	**-34**	**56**	**-147**
1.Tangible assets	3451	3307	3414	4083	4745
2.Intangible assets	680	665	687	832	820
3.Others	307	264	269	386	608
Total FA= 1+2+3	4437	4236	4371	5301	6173
2. CAPEX		**487**	**806**	**1549**	**1446**
3. Investment in other assets		**-43**	**5**	**117**	**222**
1+2+3=Gross investment		**188**	**777**	**1722**	**1521**
FCFF= GCF- GI		**1777**	**1617**	**931**	**1632**

	2008	2009	2010	2011	2012
1.Change in s.t debt		199	-7	18	-53
2.Change in fixed liabilites		-75	-48	-6	-16
3.Interest expenses*(1-t)		-3	-23	-28	-11
1+2+3=Debt service		**122**	**-78**	**-16**	**-80**
1.Increase in cash		954	1013	33	376
2.Dividends paid		662	751	1004	1130
3.Others		39	-69	-90	206
1+2+3=Equity service		**1655**	**1696**	**947**	**1712**
1+2= Total service		**1777**	**1617**	**931**	**1632**
Error		0	0	0	0

Reinvestment rate	2008	2009	2010	2011	2012
Gross investment		188	777	1722	1521
Depreciation		646	676	736	796
Net invesment		-457	101	986	724
NOPLAT		1.319	1.718	1.917	2.356
Net reinvestment rate		-35%	6%	51%	31%
NOPLAT*(1- reinvestment rate) =FCF		1776,57	1617,17	931,03	1631,87
Average reinvest,emt rate		13%			

APPENDIX 2: PROJECTIONS.

2.1. NEUTRAL SCENARIO

Net Balance Sheet	2013E	2014E	2015E	2016E	2017E
Stock	1598,2	2075,3	2082,4	2382,1	2569,1
Receivables	613,4	1037,5	696,1	1481,3	607,8
Payables	3035,1	4734,6	3586,8	5210,8	5044,7
Working capital	**-823,5**	**-1621,8**	**-808,4**	**-1347,4**	**-1867,8**
Fixed assets	**6973,4**	**7825,7**	**8195,1**	**8547,8**	**9020,0**
Tangibles	5363,5	6005,7	6125,8	6182,0	6300,1
Intangibles	862,5	907,4	954,6	1004,2	1056,4
Financial investments	4,0	4,0	4,0	4,0	4,0
Other	743,4	908,6	1110,7	1357,6	1659,5
Net asets	**6149,8**	**6203,9**	**7386,7**	**7200,4**	**7152,2**
Financial debt	76,4	76,4	76,4	76,4	76,4
Cash	4327,1	5670,0	5868,1	7177,3	8417,2
Net S.T Debt	**-4250,7**	**-5593,7**	**-5791,7**	**-7101,0**	**-8340,8**
L.T .debt (derived from loans)	4,3	4,3	4,3	4,3	4,3
Net position on tax liabilities	-67,5	-50,6	-33,8	-16,9	0,0
Other debt instruments	684,4	803,3	942,8	1106,6	1298,8
Provisions	144,3	144,3	144,3	144,3	144,3
Fixed liabilities	**765,5**	**901,3**	**1057,7**	**1238,3**	**1447,5**
Equity attributable to the group	9599,1	10860,4	12084,8	13027,1	14009,6
Minorities	35,9	35,9	35,9	35,9	35,9
Equity	**9635,0**	**10896,4**	**12120,8**	**13063,1**	**14045,6**
TOTAL FUNDS	**6149,8**	**6203,9**	**7386,7**	**7200,4**	**7152,2**

Detailed P&L	2013E	2014E	2015E	2016E	2017E
Net sales	**18099**	**20452**	**22599**	**24836**	**27233**
Like for like	6,50%	3%	4,00%	3%	3%
Space Increase	10%	10%	9%	8%	8%
Space contribution	7,00%	10,00%	6,50%	7%	7%
Growth rate	**13,50%**	**13,00%**	**10,50%**	**9,90%**	**9,65%**
Cost of goods sold	-7257,65	-8385,21	-9604,64	-10058,77	-11437,94
Supplies					
Inventory var					
Gross profit	**10841,22**	**12066,52**	**12994,52**	**14777,70**	**15795,25**
Gross margin	**59,90%**	**59,00%**	**57,50%**	**59,50%**	**58,00%**
OPEX	**-6430**	**-7262**	**-8018**	**-8809**	**-9648**
Depreciation	**-814**	**-920**	**-1017**	**-1118**	**-1089**
Amortization / Sales	5%	5%	5%	5%	4%
Staff cost	-2923	-3294	-3637	-4000	-4381
Staff cost as % of sales	16%	16%	16%	16%	16%
rent cost	-1810	-2050	-2256	-2471	-2699
Rent cost as % Sales	10%	10%	10%	10%	10%
Other operating expenses	-1697,627466	-1918,249847	-2124,775576	-2337,922393	-2568,237772
Other Opex as % sales	9%	9%	9%	9%	9%
Total OPEX as % sales	35,53%	35,51%	35,48%	35,47%	35,43%
Growth in OPEX	15%	13%	10%	10%	10%
Other expenses	**-7,8386**	**-8**	**-9**	**-6**	**-8**
EBITDA	**4403**	**4796**	**4968**	**5963**	**6139**
Operating P/L (EBIT)	**3588**	**3876**	**3951**	**4845**	**5050**
Financial result	**11,151**	**10,151**	**9,151**	**11,151**	**13,651**
Financial revenue	**25**	**26**	**28**	**30**	**34**
Interest income	25	26	28	30	34
foreign exchange gains	0	0	0	0	0
Dividends	0	0	0	0	
Financial expense	**-14**	**-16**	**-19**	**-19**	**-20**
Interest expense	-3	-3	-3	-3	-3
other financial expenses	-11	-13	-16	-16	-18
Foreign exchange losses	0	0	0	0	0
Income before taxes	**3600**	**3886**	**3960**	**4857**	**5064**
Taxes	-863,9071747	-893,7716748	-910,7296331	-1117,00396	-1164,661109
Tax rate	24%	23%	23%	23%	23%
Income after taxes	**2735,71**	**2992,19**	**3048,96**	**3739,53**	**3899,08**
Minorities	-7,227361078	-7,904962195	-8,054946832	-9,8793398	-10,30084338
Net income attribuable to the parent	**2728,48**	**2984,29**	**3040,91**	**3729,66**	**3888,78**
Number of shares	623,3304	623,3304	623,3304	623,3304	623,3304
EPS (euros)	**4,4**	**4,8**	**4,9**	**6,0**	**6,2**
DPS	**2,5**	**2,8**	**2,9**	**4,5**	**4,7**

Summarized P&L account	2013E	2014E	2015E	2016E	2017E
Net sales	18099	20452	22599	24836	27233
Cost of goods sold	7258	8385	9605	10059	11438
Gross profit	**10841**	**12067**	**12995**	**14778**	**15795**
General & Admin exp	6438	7270	8027	8815	9656
EBITDA	**4403**	**4796**	**4968**	**5963**	**6139**
Depreciation	814	920	1017	1118	1089
EBIT	**3588**	**3876**	**3951**	**4845**	**5050**
Financial result	11	10	9	11	14
EBT	**3600**	**3886**	**3960**	**4857**	**5064**
Taxes	864	894	911	1117	1165
Net profit	**2736**	**2992**	**3049**	**3740**	**3899**
Minorities	**7**	**8**	**8**	**10**	**10**
Net income to the parent	**2728**	**2984**	**3041**	**3730**	**3889**
Check	**true**	**true**	**true**	**true**	**true**

2.1.1. KEY CALCULATIONS FOR PROJECTIONS:

1. Gross Margin and revenues	2013E	2014E	2015E	2016E	2017E
Revenues	**18099**	**20452**	**22599**	**24836**	**27233**
Growth rate	13,5%	13,0%	10,5%	9,9%	9,7%
Gross margin	**59,90%**	**59,00%**	**57,50%**	**59,50%**	**58,00%**
Growth rate	0,2%	-1,5%	-2,5%	3,5%	-2,5%
Fixed expenses (excluding amortization)	**6438**	**7270**	**8027**	**8815**	**9656**
Growth rate	14,6%	12,9%	10,4%	9,8%	9,5%

2. Amortization & CAPEX	2013E	2014E	2015E	2016E	2017E
Net FA excluding financial investments	6969	7822	8191	8544	9016
Tangible & Intangible assets	6226	6913	7080	7186	7356
Tangible	**5363**	**6006**	**6126**	**6182**	**6300**
Growth rate tangible	13%	12%	2%	1%	2%
Intangible	**863**	**907**	**955**	**1004**	**1056**
Growth rate intangible	5%	5%	5%	5%	5%
CAPEX to tangible	**1433**	**1563**	**1137**	**1174**	**1207**
CAPEX to intangible	**43**	**45**	**47**	**50**	**52**
CAPEX	**1476**	**1607**	**1184**	**1223**	**1260**
Space increased by investment	10%	10%	9%	8%	8%
CAPEX/EBITDA	34%	34%	24%	21%	21%
Amortization	**814,45**	**920,33**	**1016,96**	**1117,64**	**1089,33**
Amortization/Sales	5%	5%	5%	5%	5%

3. Net Debt and Financial Expenses	2013E	2014E	2015E	2016E	2017E
ST Debt	76	76	76	76	76
-Cash	4327	5670	5868	7177	8417
Net ST Debt	**-4251**	**-5594**	**-5792**	**-7101**	**-8341**
LT Debt derived from loans	4	4	4	4	4
Other financial liabilities from financial instruments	684,4	803,3	942,8	1106,6	1298,8
Total net debt	**-3562**	**-4786**	**-4845**	**-5990**	**-7038**
Total debt previous period	664	765	884	1023	1187
Financial expenses from debt instruments	**14**	**16**	**19**	**19**	**20**
Cost of debt=kf	2,09%	2,07%	2,13%	1,84%	1,71%

4.Tax rate	2013E	2014E	2015E	2016E	2017E
Tax rate	24%	23%	23%	23%	23%

5. Minorities	2013E	2014E	2015E	2016E	2017E
Minorities B.S	35,9	35,9	35,9	35,9	35,9
% of net result paid to minorities	0,26%	0,26%	0,26%	0,26%	0,26%
Minorities payment	7,227361078	7,904962195	8,054946832	9,8793398	10,30084338

6.Dividend Payout	2013E	2014E	2015E	2016E	2017E
Net income attribuable to the parent	2728,48	2984,29	3040,91	3729,66	3888,78
Number of shares	623,33	623,33	623,33	623,33	623,33
EPS (euros)	**4,38**	**4,79**	**4,88**	**5,98**	**6,24**
Growth rate	16%	9%	2%	23%	4%
DPS	**2,5**	**2,8**	**2,9**	**4,5**	**4,7**
Growth rate	15%	9%	5%	53%	4%
Payout ratio	**58%**	**58%**	**60%**	**75%**	**75%**
Retention ratio	42%	42%	40%	25%	25%

7.Working capital analysis	2013E	2014E	2015E	2016E	2017E
Receivables	**613**	**1038**	**696**	**1481**	**608**
Avg receivables	731	825	867	1089	1045
Revenues	18099	20452	22599	24836	27233
Collecting period	**15**	**15**	**14**	**16**	**14**
1 day collection	50	56	62	68	75
Stock	**1598**	**2075**	**2082**	**2382**	**2569**
Avg stock	1590	1837	2079	2232	2476
Cost of goods sold	7258	8385	9605	10059	11438
Avg days of stock	**80**	**80**	**79**	**81**	**79**
1 day of stock	20	23	26	28	31
Payables	**3035**	**4735**	**3587**	**5211**	**5045**
Avg Payables	3139	3885	4161	4399	5128
Purchases	7275	8862	9612	10358	11625
Avg days of payment	**158**	**160**	**158**	**155**	**161**
1 day of payment	20	24	26	28	32
Maturity period	**-63**	**-65**	**-65**	**-58**	**-68**
Working capital	**-824**	**-1622**	**-808**	**-1347**	**-1868**

8.Other Fixed assets	2013E	2014E	2015E	2016E	2017E
Financial investments	**4**	**4**	**4**	**4**	**4**
Other	**743**	**909**	**1111**	**1358**	**1659**
Growth rate	22%	22%	22%	22%	22%

9. Other Fixed liabilities	2013E	2014E	2015E	2016E	2017E
Other debt instruments	**684,39111**	**803,2776392**	**942,8161123**	**1106,594007**	**1298,821987**
Growth rate	17%	17%	17%	17%	17%

2.1.2. SCENARIO FINANCIAL ANALYSIS:

Analysis: Structure ratios	2013E	2014E	2015E	2016E	2017E
Working capital	-13%	-26%	-11%	-19%	-26%
Fixed assets	113%	126%	111%	119%	126%
Total	100%	100%	100%	100%	100%
Net s.t debt	-69%	-90%	-78%	-99%	-117%
L.T Debt	12%	15%	14%	17%	20%
Equity	157%	176%	164%	181%	196%
Total	100%	100%	100%	100%	100%

Breakeven point	2013E	2014E	2015E	2016E	2017E
Variable expenses	-7258	-8385	-9605	-10059	-11438
Revenues	18099	20452	22599	24836	27233
Gross margin	59,90%	59,00%	57,50%	59,50%	58,00%
Fixed expenses	6438	7270,377706	8027,010102	8814,672432	9655,831334
BEP over EBITDA	**10748**	**12323**	**13960**	**14815**	**16648**
Position over sales	**168%**	**166%**	**162%**	**168%**	**164%**
OPEX+ Depre+Fin exp	7241,611283	8180,554362	9034,821162	9921,162737	10731,50806
Breakeven over profit	**12089,50131**	**13865,34638**	**15712,73246**	**16674,22309**	**18502,6001**
Position in t of sales	**150%**	**148%**	**144%**	**149%**	**147%**

Risk & return	2013E	2014E	2015E	2016E	2017E
Gross margin	60%	59%	58%	60%	58%
EBITDA/Revenues	24%	23%	22%	24%	23%
EBIT/Revenues	20%	19%	17%	20%	19%
Net profit/Revenues	15%	15%	13%	15%	14%

	2013E	2014E	2015E	2016E	2017E
ROE	**32,25%**	**31,06%**	**27,98%**	**30,85%**	**29,85%**
ROIC	**50,86%**	**48,53%**	**49,03%**	**50,51%**	**54,00%**
EBIT	3588	3876	3951	4845	5050
Tax rate	24%	23%	23%	23%	23%
NOPLAT	**2.727**	**2.984**	**3.042**	**3.731**	**3.889**
Net assets	5363	6150	6204	7387	7200
Leverage factor	**-18,60%**	**-17,47%**	**-21,05%**	**-19,66%**	**-24,16%**

Financial leverage	2013E	2014E	2015E	2016E	2017E
ROIC	50,86%	48,53%	49,03%	50,51%	54,00%
ROIC-Kfin result*(1-T)	50,58%	48,30%	48,88%	50,33%	53,83%
kfin result	0%	0%	0%	0%	0%
kfin result(1-t)	0%	0%	0%	0%	0%
Interest	-11	-10	-9	-11	-14
Total net debt -1	-3119	-3485	-4692	-4734	-5863
Net position on S.T.D	-3767	-4251	-5594	-5792	-7101
Fixed liabilities	647	766	901	1058	1238
D/E	-37%	-36%	-43%	-39%	-45%
ROE	**32,25%**	**31,06%**	**27,98%**	**30,85%**	**29,85%**
Error	0,00%	0,00%	0,00%	0,00%	0,00%

Dupont analysis	2013E	2014E	2015E	2016E	2017E
ROE	32%	31%	28%	31%	30%
Net profit/EBT	76%	77%	77%	77%	77%
EBT/EBIT	100%	100%	100%	100%	100%
EBIT/ Sales	20%	19%	17%	20%	19%
Sales/ Assets	338%	333%	364%	336%	378%
Assets/ Equity	63%	64%	57%	61%	55%
Error	0,00%	0,00%	0,00%	0,00%	0,00%

CF Statement					
EUR m	2013E	2014E	2015E	2016E	2017E
1. NOPLAT	**2727**	**2984**	**3042**	**3731**	**3889**
Tax rate	24%	23%	23%	23%	23%
2. Adjustments	**814**	**920**	**1017**	**1118**	**1089**
. Depreciation	814	920	1017	1118	1089
. FOREX	0	0	0	0	0
. Provisions	0	0	0	0	0
. others	0	0	0	0	0
1+2 = Gross cash flow	**3542**	**3905**	**4059**	**4849**	**4978**
. Stock	-17	-477	-7	-300	-187
. Account receivables	234	-424	341	-785	874
. Account payables	-208	1699	-1148	1624	-166
3. Change in working capital	**9**	**798**	**-813**	**539**	**520**
CFO= GCF +3	**3551**	**4703**	**3245**	**5388**	**5498**
1.Tangible assets	5363	6006	6126	6182	6300
2.Intangible assets	863	907	955	1004	1056
3.Others	743	909	1111	1358	1659
Total FA= 1+2+3	6969	7822	8191	8544	9016
CAPEX = Variation FA + Depreciation	**-1476**	**-1607**	**-1184**	**-1223**	**-1260**
Variation in other FA	**-135**	**-165**	**-202**	**-247**	**-302**
CFI	**-1611**	**-1773**	**-1386**	**-1470**	**-1561**
1. Financial result	8	8	7	9	11
2.1 S.T Debt	76	76	76	76	76
2.2. L.T Debt	4	4	4	4	4
.1+.2 Total debt	81	81	81	81	81
2. Change in debt = Variation TD	**0**	**0**	**0**	**0**	**0**
3. Dividends	**-1583**	**-1731**	**-1825**	**-2797**	**-2917**
4. Minorities change	**0**	**0**	**0**	**0**	**0**
5.1 Net position on tax liabilities	-68	-51	-34	-17	0
5.2 Financial assets	4	4	4	4	4
5.3 Other financing liabilities	684	803	943	1107	1299
.1-.2+.3 Total	613	749	905	1086	1295
5.Changes in Other financial liabilities	**118**	**136**	**156**	**181**	**209**
6.Other movements in equity	**0**	**0**	**0**	**0**	**0**
CFF	**-1456**	**-1587**	**-1661**	**-2608**	**-2697**
Cash variation BS	484	1343	198	1309	1240
Cash variation CFS	484	1343	198	1309	1240
Error	0	0	0	0	0

Free cash flow firm	2013E	2014E	2015E	2016E	2017E
1. NOPLAT	**2.727**	**2.984**	**3.042**	**3.731**	**3.889**
Tax rate	24%	23%	23%	23%	23%
2. Adjustments	**814**	**920**	**1017**	**1118**	**1089**
. Depreciation	814	920	1017	1118	1089
1+2 = Gross cash flow	**3541,68**	**3904,70**	**4058,88**	**4848,59**	**4977,90**
Investments					
. Account receivables	-17	-477	-7	-300	-187
. Account payables	234	-424	341	-785	874
3. Change in working capital	-208	1699	-1148	1624	-166
Change in Working capital	9	798	-813	539	520
1. Working capiral investment	**-9**	**-798**	**813**	**-539**	**-520**
2.Intangible assets	5363	6006	6126	6182	6300
3.Others	863	907	955	1004	1056
Total FA= 1+2+3	743	909	1111	1358	1659
CAPEX = Variation FA + Depreciation	6969	7822	8191	8544	9016
2. CAPEX	**1476**	**1607**	**1184**	**1223**	**1260**
3. Investment in other assets	**135**	**165**	**202**	**247**	**302**
1+2+3=Gross investment	**1602**	**974**	**2200**	**931**	**1041**
FCFF= GCF- GI	**1940,03**	**2930,28**	**1859,11**	**3917,24**	**3936,80**

ROIC	**50,86%**	**48,53%**	**49,03%**	**50,51%**	**54,00%**

Services	2013E	2014E	2015E	2016E	2017E
1.Change in s.t debt	0	0	0	0	0
2.Change in fixed liabilites	-118	-136	-156	-181	-209
3.Interest expenses*(1-t)	-8	-8	-7	-9	-11
1+2+3=Debt service	**-127**	**-144**	**-163**	**-189**	**-220**
1.Increase in cash	484	1343	198	1309	1240
2.Dividends paid	1583	1731	1825	2797	2917
3.Others	0	0	0	0	0
1+2+3=Equity service	**2067**	**3074**	**2023**	**4106**	**4156**
1+2= Total service	**1940**	**2930**	**1859**	**3917**	**3937**
Error	0	0	0	0	0

Net reinvestment rate analysis	2013E	2014E	2015E	2016E	2017E
Gross investment	1602	974	2200	931	1041
Depreciation	814	920	1017	1118	1089
Net invesment	787	54	1183	-186	-48
NOPLAT	2.727	2.984	3.042	3.731	3.889
NRR	29%	2%	39%	-5%	-1%
NOPLAT*(1- reinvestment rate) =FCF	1940,03	2930,28	1859,11	3917,24	3936,80
Check	True	True	True	True	True

2.2 OPTIMISTIC SCENARIO

Net Balance Sheet	2013E	2014E	2015E	2016E	2017E
Stock	1611,1	1913,5	1892,7	2328,0	2236,6
Receivables	643,0	1054,8	752,3	1519,5	703,8
Payables	3071,8	4246,9	3347,5	5098,9	4123,0
Working capital	**-817,7**	**-1278,6**	**-702,6**	**-1251,4**	**-1182,6**
Fixed assets	**6956,9**	**7939,6**	**8606,6**	**9166,0**	**9983,2**
Tangibles	5347,0	6119,5	6537,4	6800,2	7263,3
Intangibles	862,5	907,4	954,6	1004,2	1056,4
Financial investments	4,0	4,0	4,0	4,0	4,0
Other	743,4	908,6	1110,7	1357,6	1659,5
Net asets	**6139,2**	**6661,0**	**7904,1**	**7914,6**	**8800,6**
Financial debt	76,4	76,4	76,4	76,4	76,4
Cash	4398,7	5497,3	6063,7	7407,9	8092,4
Net S.T Debt	**-4322,4**	**-5421,0**	**-5987,4**	**-7331,6**	**-8016,1**
L.T .debt (derived from loans)	4,3	4,3	4,3	4,3	4,3
Net position on tax liabilities	-67,5	-50,6	-33,8	-16,9	0,0
Other debt instruments	684,4	803,3	942,8	1106,6	1298,8
Provisions	144,3	144,3	144,3	144,3	144,3
Fixed liabilities	**765,5**	**901,3**	**1057,7**	**1238,3**	**1447,5**
Equity attributable to the group	9660,1	11144,7	12797,8	13971,9	15333,3
Minorities	35,9	35,9	35,9	35,9	35,9
Equity	**9696,0**	**11180,7**	**12833,7**	**14007,8**	**15369,2**
TOTAL FUNDS	**6139,2**	**6661,0**	**7904,1**	**7914,6**	**8800,6**

Detailed P&L	2013E	2014E	2015E	2016E	2017E
Net sales	**18466**	**21032**	**23556**	**25912**	**28982**
Like for like	6,50%	4%	4,00%	3%	3%
Space Increase	10%	10%	9%	8%	8%
Space contribution	9,30%	9,90%	8,00%	7%	9%
Growth rate	**15,80%**	**13,90%**	**12,00%**	**10,00%**	**11,85%**
Cost of goods sold	-7287,23	-8045,51	-8792,79	-9509,67	-10544,84
Supplies					
Inventory var					
Gross profit	**11178,40**	**12986,85**	**14763,45**	**16402,19**	**18437,58**
Gross margin	**60,54%**	**61,75%**	**62,67%**	**63,30%**	**63,62%**
OPEX	**-6561**	**-7469**	**-8358**	**-9190**	**-10268**
Depreciation	**-831**	**-946**	**-1060**	**-1166**	**-1159**
Amortization / Sales	5%	5%	5%	5%	4%
Staff cost	-2982	-3388	-3791	-4173	-4662
Staff cost as % of sales	16%	16%	16%	16%	16%
rent cost	-1847	-2108	-2352	-2578	-2872
Rent cost as % Sales	10%	10%	10%	10%	10%
Other operating expenses	-1732,028727	-1972,709567	-2214,760598	-2439,151672	-2733,199278
Other Opex as % sales	9%	9%	9%	9%	9%
Total OPEX as % sales	35,53%	35,51%	35,48%	35,47%	35,43%
Growth in OPEX	17%	14%	12%	10%	12%
Other expenses	**-7,8386**	**-8**	**-9**	**-6**	**-8**
EBITDA	**4610**	**5510**	**6397**	**7206**	**8162**
Operating P/L (EBIT)	**3779**	**4564**	**5337**	**6040**	**7003**
Financial result	**11,151**	**10,151**	**9,151**	**11,151**	**13,651**
Financial revenue	**25**	**26**	**28**	**30**	**34**
Interest income	25	26	28	30	34
foreign exchange gains	0	0	0	0	0
Dividends	0	0	0	0	
Financial expense	**-14**	**-16**	**-19**	**-19**	**-20**
Interest expense	-3	-3	-3	-3	-3
other financial expenses	-11	-13	-16	-16	-18
Foreign exchange losses	0	0	0	0	0
Income before taxes	**3790**	**4574**	**5346**	**6051**	**7016**
Taxes	-909,5951719	-1052,016076	-1229,578162	-1391,78286	-1613,773888
Tax rate	24%	23%	23%	23%	23%
Income after taxes	**2880,38**	**3521,97**	**4116,41**	**4659,45**	**5402,63**
Minorities	-7,609582296	-9,304554555	-10,87500215	-12,30962135	-14,27302065
Net income attribuable to the parent	**2872,78**	**3512,66**	**4105,54**	**4647,14**	**5388,36**
Number of shares	623,3304	623,3304	623,3304	623,3304	623,3304
EPS (euros)	**4,6**	**5,6**	**6,6**	**7,5**	**8,6**
DPS	**2,7**	**3,3**	**4,0**	**5,6**	**6,5**

Summarized P&L account	2013E	2014E	2015E	2016E	2017E
Net sales	18466	21032	23556	25912	28982
Cost of goods sold	7287	8046	8793	9510	10545
Gross profit	**11178**	**12987**	**14763**	**16402**	**18438**
General & Admin exp	6569	7477	8367	9196	10276
EBITDA	**4610**	**5510**	**6397**	**7206**	**8162**
Depreciation	831	946	1060	1166	1159
EBIT	**3779**	**4564**	**5337**	**6040**	**7003**
Financial result	11	10	9	11	14
EBT	**3790**	**4574**	**5346**	**6051**	**7016**
Taxes	910	1052	1230	1392	1614
Net profit	**2880**	**3522**	**4116**	**4659**	**5403**
Minorities	**8**	**9**	**11**	**12**	**14**
Net income to the parent	**2873**	**3513**	**4106**	**4647**	**5388**
Check	**true**	**true**	**true**	**true**	**true**

2.2.1 KEY CALCULATIONS FOR PROJECTIONS

1. Gross Margin and revenues	2013E	2014E	2015E	2016E	2017E
Revenues	**18466**	**21032**	**23556**	**26147**	**29246**
Growth rate	15,8%	13,9%	12,0%	11,0%	11,9%
Gross margin	**60,54%**	**61,75%**	**62,67%**	**63,30%**	**63,62%**
Growth rate	1,3%	2,0%	1,5%	1,0%	0,5%
Fixed expenses (excluding amortization)	**6569**	**7477**	**8367**	**9196**	**10276**
Growth rate	17,0%	13,8%	11,9%	9,9%	11,7%

2. Amortization & CAPEX	2013E	2014E	2015E	2016E	2017E
Net FA excluding financial investments	6953	7936	8603	9162	9979
Tangible & Intangible assets	6210	7027	7492	7804	8320
Tangible	**5347**	**6120**	**6537**	**6800**	**7263**
Growth rate tangible	13%	14%	7%	4%	7%
Intangible	**863**	**907**	**955**	**1004**	**1056**
Growth rate intangible	5%	5%	5%	5%	5%
CAPEX to tangible	**1433**	**1719**	**1478**	**1429**	**1622**
CAPEX to intangible	**43**	**45**	**47**	**50**	**52**
CAPEX	**1476**	**1764**	**1525**	**1478**	**1675**
Space increased by investment	10%	10%	9%	8%	8%
CAPEX/EBITDA	32%	32%	24%	21%	21%
Amortization	**830,95**	**946,46**	**1060,03**	**1166,03**	**1159,30**
Amortization/Sales	5%	5%	5%	5%	5%

3. Net Debt and Financial Expenses	2013E	2014E	2015E	2016E	2017E
ST Debt	76	76	76	76	76
-Cash	4399	5497	6064	7408	8092
Net ST Debt	**-4322**	**-5421**	**-5987**	**-7332**	**-8016**
LT Debt derived from loans	4	4	4	4	4
Other financial liabilities from financial instruments	684,4	803,3	942,8	1106,6	1298,8
Total net debt	**-3634**	**-4613**	**-5040**	**-6221**	**-6713**
Total debt previous period	664	765	884	1023	1187
Financial expenses from debt instruments	**14**	**16**	**19**	**19**	**20**
Cost of debt=kf	2,09%	2,07%	2,13%	1,84%	1,71%

4.Tax rate	2013E	2014E	2015E	2016E	2017E
Tax rate	24%	23%	23%	23%	23%

5. Minorities	2013E	2014E	2015E	2016E	2017E
Minorities B.S	35,9	35,9	35,9	35,9	35,9
% of net result paid to minorities	0,26%	0,26%	0,26%	0,26%	0,26%
Minorities payment	7,609582296	9,304554555	10,87500215	12,30962135	14,27302065

6.Dividend Payout	2013E	2014E	2015E	2016E	2017E
Net income attribuable to the parent	2872,78	3512,66	4105,54	4647,14	5388,36
Number of shares	623,33	623,33	623,33	623,33	623,33
EPS (euros)	**4,61**	**5,64**	**6,59**	**7,46**	**8,64**
Growth rate	22%	22%	17%	13%	16%
DPS	**2,7**	**3,3**	**4,0**	**5,6**	**6,5**
Growth rate	22%	22%	21%	41%	16%
Payout ratio	**58%**	**58%**	**60%**	**75%**	**75%**
Retention ratio	42%	42%	40%	25%	25%

7.Working capital analysis	2013E	2014E	2015E	2016E	2017E
Receivables	**643**	**1055**	**752**	**1519**	**704**
Avg receivables	745	849	904	1136	1112
Revenues	18466	21032	23556	25912	28982
Collecting period	**15**	**15**	**14**	**16**	**14**
1 day collection	51	58	65	71	79
Stock	**1611**	**1913**	**1893**	**2328**	**2237**
Avg stock	1596	1762	1903	2110	2282
Cost of goods sold	7287	8046	8793	9510	10545
Avg days of stock	**80**	**80**	**79**	**81**	**79**
1 day of stock	20	22	24	26	29
Payables	**3072**	**4247**	**3348**	**5099**	**4123**
Avg Payables	3158	3659	3797	4223	4611
Purchases	7317	8348	8772	9945	10453
Avg days of payment	**158**	**160**	**158**	**155**	**161**
1 day of payment	20	23	24	27	29
Maturity period	**-63**	**-65**	**-65**	**-58**	**-68**
Working capital	**-818**	**-1279**	**-703**	**-1251**	**-1183**

8.Other Fixed assets	2013E	2014E	2015E	2016E	2017E
Financial investments	**4**	**4**	**4**	**4**	**4**
Other	**743**	**909**	**1111**	**1358**	**1659**
Growth rate	22%	22%	22%	22%	22%

9. Other Fixed liabilities	2013E	2014E	2015E	2016E	2017E
Other debt instruments	**684,39111**	**803,2776392**	**942,8161123**	**1106,594007**	**1298,821987**
Growth rate	17%	17%	17%	17%	17%
Net position on tax liabilities	-67,5264	-50,6448	-33,7632	-16,8816	0

2.2.2 SCENARIO FINANCIAL ANALYSIS

Analysis: Structure ratios	2013E	2014E	2015E	2016E	2017E
Working capital	-13%	-19%	-9%	-16%	-13%
Fixed assets	113%	119%	109%	116%	113%
Total	100%	100%	100%	100%	100%
Net s.t debt	-70%	-81%	-76%	-93%	-91%
L.T Debt	12%	14%	13%	16%	16%
Equity	158%	168%	162%	177%	175%
Total	100%	100%	100%	100%	100%

Breakeven point	2013E	2014E	2015E	2016E	2017E
Variable expenses	-7287	-8046	-8793	-9510	-10545
Revenues	18466	21032	23556	25912	28982
Gross margin	60,54%	61,75%	62,67%	63,30%	63,62%
Fixed expenses	6569	7476,558905	8366,575762	9196,077547	10275,52504
BEP over EBITDA	**10851**	**12108**	**13350**	**14528**	**16152**
Position over sales	**170%**	**174%**	**176%**	**178%**	**179%**
OPEX+ Depre+Fin exp	7388,424714	8412,863955	9417,455538	10350,9604	11421,17081
Breakeven over profit	**12204,95666**	**13624,7356**	**15026,28956**	**16352,24737**	**17953,17922**
Position in t of sales	**151%**	**154%**	**157%**	**158%**	**161%**

Risk & return	2013E	2014E	2015E	2016E	2017E
Gross margin	61%	62%	63%	63%	64%
EBITDA/Revenues	25%	26%	27%	28%	28%
EBIT/Revenues	20%	22%	23%	23%	24%
Net profit/Revenues	16%	17%	17%	18%	19%

	2013E	2014E	2015E	2016E	2017E
ROE	**33,96%**	**36,32%**	**36,82%**	**36,31%**	**38,57%**
ROIC	**53,55%**	**57,24%**	**61,69%**	**58,84%**	**68,13%**
EBIT	3779	4564	5337	6040	7003
Tax rate	24%	23%	23%	23%	23%
NOPLAT	**2.872**	**3.514**	**4.109**	**4.651**	**5.392**
Net assets	5363	6139	6661	7904	7915
Leverage factor	**-19,59%**	**-20,92%**	**-24,88%**	**-22,54%**	**-29,56%**

Financial leverage	2013E	2014E	2015E	2016E	2017E
ROIC	53,55%	57,24%	61,69%	58,84%	68,13%
ROIC-Kfin result*(1-T)	53,28%	57,02%	61,54%	58,67%	67,96%
kfin result	0%	0%	0%	0%	0%
kfin result(1-t)	0%	0%	0%	0%	0%
Interest	-11	-10	-9	-11	-14
Total net debt -1	-3119	-3557	-4520	-4930	-6093
Net position on S.T.D	-3767	-4322	-5421	-5987	-7332
Fixed liabilities	647	766	901	1058	1238
D/E	-37%	-37%	-40%	-38%	-43%
ROE	**33,96%**	**36,32%**	**36,82%**	**36,31%**	**38,57%**
Error	0,00%	0,00%	0,00%	0,00%	0,00%

Dupont analysis	2013E	2014E	2015E	2016E	2017E
ROE	34%	36%	37%	36%	39%
Net profit/EBT	76%	77%	77%	77%	77%
EBT/EBIT	100%	100%	100%	100%	100%
EBIT/ Sales	20%	22%	23%	23%	24%
Sales/ Assets	344%	343%	354%	328%	366%
Assets/ Equity	63%	63%	60%	62%	57%
Error	0,00%	0,00%	0,00%	0,00%	0,00%

CF Statement					
EUR m	2013E	2014E	2015E	2016E	2017E
1. NOPLAT	**2872**	**3514**	**4109**	**4651**	**5392**
Tax rate	24%	23%	23%	23%	23%
2. Adjustments	**831**	**946**	**1060**	**1166**	**1159**
. Depreciation	831	946	1060	1166	1159
. FOREX	0	0	0	0	0
. Provisions	0	0	0	0	0
. others	0	0	0	0	0
1+2 = Gross cash flow	**3703**	**4461**	**5169**	**5817**	**6551**
. Stock	-30	-302	21	-435	91
. Account receivables	205	-412	303	-767	816
. Account payables	-171	1175	-899	1751	-976
3. Change in working capital	**3**	**461**	**-576**	**549**	**-69**
CFO= GCF +3	**3706**	**4921**	**4593**	**6366**	**6483**
1.Tangible assets	5347	6120	6537	6800	7263
2.Intangible assets	863	907	955	1004	1056
3.Others	743	909	1111	1358	1659
Total FA= 1+2+3	6953	7936	8603	9162	9979
CAPEX = Variation FA + Depreciation	**-1476**	**-1764**	**-1525**	**-1478**	**-1675**
Variation in other FA	**-135**	**-165**	**-202**	**-247**	**-302**
CFI	**-1611**	**-1929**	**-1727**	**-1725**	**-1976**
1. Financial result	8	8	7	9	11
2.1 S.T Debt	76	76	76	76	76
2.2. L.T Debt	4	4	4	4	4
.1+.2 Total debt	81	81	81	81	81
2. Change in debt = Variation TD	**0**	**0**	**0**	**0**	**0**
3. Dividends	**-1666**	**-2037**	**-2463**	**-3485**	**-4041**
4. Minorities change	**0**	**0**	**0**	**0**	**0**
5.1 Net position on tax liabilities	-68	-51	-34	-17	0
5.2 Financial assets	4	4	4	4	4
5.3 Other financing liabilities	684	803	943	1107	1299
.1-.2+.3 Total	613	749	905	1086	1295
5.Changes in Other financial liabilities	**118**	**136**	**156**	**181**	**209**
6.Other movements in equity	0	0	0	0	0
CFF	**-1540**	**-1894**	**-2300**	**-3296**	**-3822**
Cash variation BS	556	1099	566	1344	684
Cash variation CFS	556	1099	566	1344	684
Error	0	0	0	0	0

Free cash flow firm	2013E	2014E	2015E	2016E	2017E
1. NOPLAT	**2.872**	**3.514**	**4.109**	**4.651**	**5.392**
Tax rate	24%	23%	23%	23%	23%
2. Adjustments	**831**	**946**	**1060**	**1166**	**1159**
. Depreciation	831	946	1060	1166	1159
1+2 = Gross cash flow	**3702,86**	**4460,61**	**5169,40**	**5816,89**	**6551,42**
Investments					
. Account receivables	-30	-302	21	-435	91
. Account payables	205	-412	303	-767	816
3. Change in working capital	-171	1175	-899	1751	-976
Change in Working capital	3	461	-576	549	-69
1. Working capiral investment	**-3**	**-461**	**576**	**-549**	**69**
2.Intangible assets	5347	6120	6537	6800	7263
3.Others	863	907	955	1004	1056
Total FA= 1+2+3	743	909	1111	1358	1659
CAPEX = Variation FA + Depreciation	6953	7936	8603	9162	9979
2. CAPEX	**1476**	**1764**	**1525**	**1478**	**1675**
3. Investment in other assets	**135**	**165**	**202**	**247**	**302**
1+2+3=Gross investment	**1607**	**1468**	**2303**	**1177**	**2045**
FCFF= GCF- GI	**2095,37**	**2992,35**	**2866,29**	**4640,29**	**4506,15**

ROIC	53,55%	57,24%	61,69%	58,84%	68,13%

Services	2013E	2014E	2015E	2016E	2017E
1.Change in s.t debt	0	0	0	0	0
2.Change in fixed liabilites	-118	-136	-156	-181	-209
3.Interest expenses*(1-t)	-8	-8	-7	-9	-11
1+2+3=Debt service	**-127**	**-144**	**-163**	**-189**	**-220**
1.Increase in cash	556	1099	566	1344	684
2.Dividends paid	1666	2037	2463	3485	4041
3.Others	0	0	0	0	0
1+2+3=Equity service	**2222**	**3136**	**3030**	**4830**	**4726**
1+2= Total service	**2095**	**2992**	**2866**	**4640**	**4506**
Error	0	0	0	0	0

Net reinvestment rate analysis	2013E	2014E	2015E	2016E	2017E
Gross investment	1607	1468	2303	1177	2045
Depreciation	831	946	1060	1166	1159
Net invesment	777	522	1243	11	886
NOPLAT	2.872	3.514	4.109	4.651	5.392
NRR	27%	15%	30%	0%	16%
NOPLAT*(1- reinvestment rate) =FCF	2095,37	2992,35	2866,29	4640,29	4506,15
Check	True	True	True	True	True

2.2. PESSIMISTIC SCENARIO

Net Balance Sheet	2013E	2014E	2015E	2016E	2017E
Stock	1558,1	1809,3	1868,8	1990,8	2204,8
Receivables	529,7	930,2	568,2	1247,1	452,5
Payables	2921,6	4037,5	3370,2	4119,2	4620,3
Working capital	**-833,8**	**-1298,0**	**-933,2**	**-881,3**	**-1963,0**
Fixed assets	**7020,0**	**7902,2**	**8202,0**	**8473,2**	**8833,8**
Tangibles	5410,1	6082,2	6132,8	6107,4	6113,8
Intangibles	862,5	907,4	954,6	1004,2	1056,4
Financial investments	4,0	4,0	4,0	4,0	4,0
Other	743,4	908,6	1110,7	1357,6	1659,5
Net asets	**6186,2**	**6604,2**	**7268,8**	**7591,9**	**6870,7**
Financial debt	76,4	76,4	76,4	76,4	76,4
Cash	4120,8	4866,1	5355,8	5938,8	7593,3
Net S.T Debt	**-4044,5**	**-4789,8**	**-5279,4**	**-5862,4**	**-7517,0**
L.T .debt (derived from loans)	4,3	4,3	4,3	4,3	4,3
Net position on tax liabilities	-67,5	-50,6	-33,8	-16,9	0,0
Other debt instruments	684,4	803,3	942,8	1106,6	1298,8
Provisions	144,3	144,3	144,3	144,3	144,3
Fixed liabilities	**765,5**	**901,3**	**1057,7**	**1238,3**	**1447,5**
Equity attributable to the group	9429,3	10456,7	11454,6	12180,1	12904,3
Minorities	35,9	35,9	35,9	35,9	35,9
Equity	**9465,2**	**10492,6**	**11490,6**	**12216,0**	**12940,2**
TOTAL FUNDS	**6186,2**	**6604,2**	**7268,8**	**7591,9**	**6870,7**

Detailed P&L	2013E	2014E	2015E	2016E	2017E
Net sales	**17062**	**18086**	**19533**	**20705**	**22154**
Like for like	1,00%	2%	1,00%	0%	3%
Space Increase	10%	10%	9%	8%	8%
Space contribution	6,00%	4,00%	7,00%	6%	4%
Growth rate	**7,00%**	**6,00%**	**8,00%**	**6,00%**	**7,00%**
Cost of goods sold	-7166,20	-7686,60	-8496,86	-8696,09	-9692,52
Supplies					
Inventory var					
Gross profit	**9896,18**	**10399,52**	**11036,15**	**12008,89**	**12461,81**
Gross margin	**58,00%**	**57,50%**	**56,50%**	**58,00%**	**56,25%**
OPEX	**-6062**	**-6422**	**-6930**	**-7343**	**-7849**
Depreciation	**-768**	**-814**	**-879**	**-932**	**-886**
Amortization / Sales	5%	5%	5%	5%	4%
Staff cost	-2755	-2913	-3144	-3335	-3564
Staff cost as % of sales	16%	16%	16%	16%	16%
rent cost	-1706	-1813	-1950	-2060	-2195
Rent cost as % Sales	10%	10%	10%	10%	10%
Other operating expenses	-1600,40651	-1696,369714	-1836,495552	-1949,01454	-2089,273804
Other Opex as % sales	9%	9%	9%	9%	9%
Total OPEX as % sales	35,53%	35,51%	35,48%	35,47%	35,43%
Growth in OPEX	8%	6%	8%	6%	7%
Other expenses	**-7,8386**	**-8**	**-9**	**-6**	**-8**
EBITDA	**3826**	**3969**	**4097**	**4660**	**4605**
Operating P/L (EBIT)	**3058**	**3155**	**3218**	**3728**	**3719**
Financial result	**11,151**	**10,151**	**9,151**	**11,151**	**13,651**
Financial revenue	**25**	**26**	**28**	**30**	**34**
Interest income	25	26	28	30	34
foreign exchange gains	0	0	0	0	0
Dividends	0	0	0	0	
Financial expense	**-14**	**-16**	**-19**	**-19**	**-20**
Interest expense	-3	-3	-3	-3	-3
other financial expenses	-11	-13	-16	-16	-18
Foreign exchange losses	0	0	0	0	0
Income before taxes	**3069**	**3165**	**3227**	**3739**	**3733**
Taxes	-736,6734208	-728,0510145	-742,2447213	-859,957876	-858,5286245
Tax rate	24%	23%	23%	23%	23%
Income after taxes	**2332,80**	**2437,39**	**2484,91**	**2878,99**	**2874,20**
Minorities	-6,16293621	-6,439246071	-6,564782289	-7,6058961	-7,593255092
Net income attribuable to the parent	**2326,64**	**2430,95**	**2478,34**	**2871,38**	**2866,61**
Number of shares	623,3304	623,3304	623,3304	623,3304	623,3304
EPS (euros)	**3,7**	**3,9**	**4,0**	**4,6**	**4,6**
DPS	**2,2**	**2,3**	**2,4**	**3,5**	**3,4**

Summarized P&L account	2013E	2014E	2015E	2016E	2017E
Net sales	17062	18086	19533	20705	22154
Cost of goods sold	7166	7687	8497	8696	9693
Gross profit	**9896**	**10400**	**11036**	**12009**	**12462**
General & Admin exp	6070	6430	6939	7349	7857
EBITDA	**3826**	**3969**	**4097**	**4660**	**4605**
Depreciation	768	814	879	932	886
EBIT	**3058**	**3155**	**3218**	**3728**	**3719**
Financial result	11	10	9	11	14
EBT	**3069**	**3165**	**3227**	**3739**	**3733**
Taxes	737	728	742	860	859
Net profit	**2333**	**2437**	**2485**	**2879**	**2874**
Minorities	**6**	**6**	**7**	**8**	**8**
Net income to the parent	**2327**	**2431**	**2478**	**2871**	**2867**
Check	**true**	**true**	**true**	**true**	**true**

2.2.3 KEY CALCULATIONS FOR PROJECTIONS

1. Gross Margin and revenues	2013E	2014E	2015E	2016E	2017E
Revenues	**17062**	**18086**	**19533**	**20705**	**22154**
Growth rate	7,0%	6,0%	8,0%	6,0%	7,0%
Gross margin	**58,00%**	**57,50%**	**56,50%**	**58,00%**	**56,25%**
Growth rate	-2,9%	-0,9%	-1,7%	2,7%	-3,0%
Fixed expenses (excluding amortization)	**6070**	**6430**	**6939**	**7349**	**7857**
Growth rate	8,1%	5,9%	7,9%	5,9%	6,9%

2. Amortization & CAPEX	2013E	2014E	2015E	2016E	2017E
Net FA excluding financial investments	7016	7898	8198	8469	8830
Tangible & Intangible assets	6273	6990	7087	7112	7170
Tangible	**5410**	**6082**	**6133**	**6107**	**6114**
Growth rate tangible	14%	12%	1%	0%	0%
Intangible	**863**	**907**	**955**	**1004**	**1056**
Growth rate intangible	5%	5%	5%	5%	5%
CAPEX to tangible	**1433**	**1486**	**930**	**906**	**893**
CAPEX to intangible	**43**	**45**	**47**	**50**	**52**
CAPEX	**1476**	**1531**	**977**	**956**	**945**
Space increased by investment	10%	10%	9%	8%	8%
CAPEX/EBITDA	39%	39%	24%	21%	21%
Amortization	**767,81**	**813,88**	**878,99**	**931,72**	**886,17**
Amortization/Sales	5%	5%	5%	5%	5%

3. Net Debt and Financial Expenses	2013E	2014E	2015E	2016E	2017E
ST Debt	76	76	76	76	76
-Cash	4121	4866	5356	5939	7593
Net ST Debt	**-4044**	**-4790**	**-5279**	**-5862**	**-7517**
LT Debt derived from loans	4	4	4	4	4
Other financial liabilities from financial instruments	684,4	803,3	942,8	1106,6	1298,8
Total net debt	**-3356**	**-3982**	**-4332**	**-4752**	**-6214**
Total debt previous period	664	765	884	1023	1187
Financial expenses from debt instruments	**14**	**16**	**19**	**19**	**20**
Cost of debt=kf	2,09%	2,07%	2,13%	1,84%	1,71%

4.Tax rate	2013E	2014E	2015E	2016E	2017E
Tax rate	24%	23%	23%	23%	23%

5. Minorities	2013E	2014E	2015E	2016E	2017E
Minorities B.S	35,9	35,9	35,9	35,9	35,9
% of net result paid to minorities	0,26%	0,26%	0,26%	0,26%	0,26%
Minorities payment	6,16293621	6,439246071	6,564782289	7,605896104	7,593255092

6.Dividend Payout	2013E	2014E	2015E	2016E	2017E
Net income attribuable to the parent	2326,64	2430,95	2478,34	2871,38	2866,61
Number of shares	623,33	623,33	623,33	623,33	623,33
EPS (euros)	**3,73**	**3,90**	**3,98**	**4,61**	**4,60**
Growth rate	-1%	4%	2%	16%	0%
DPS	**2,2**	**2,3**	**2,4**	**3,5**	**3,4**
Growth rate	-2%	4%	5%	45%	0%
Payout ratio	**58%**	**58%**	**60%**	**75%**	**75%**
Retention ratio	42%	42%	40%	25%	25%

7.Working capital analysis	2013E	2014E	2015E	2016E	2017E
Receivables	**530**	**930**	**568**	**1247**	**452**
Avg receivables	689	730	749	908	850
Revenues	17062	18086	19533	20705	22154
Collecting period	**15**	**15**	**14**	**16**	**14**
1 day collection	47	50	54	57	61
Stock	**1558**	**1809**	**1869**	**1991**	**2205**
Avg stock	1570	1684	1839	1930	2098
Cost of goods sold	7166	7687	8497	8696	9693
Avg days of stock	**80**	**80**	**79**	**81**	**79**
1 day of stock	20	21	23	24	27
Payables	**2922**	**4038**	**3370**	**4119**	**4620**
Avg Payables	3082	3480	3704	3745	4370
Purchases	7143	7938	8556	8818	9907
Avg days of payment	**158**	**160**	**158**	**155**	**161**
1 day of payment	20	22	23	24	27
Maturity period	**-63**	**-65**	**-65**	**-58**	**-68**
Working capital	**-834**	**-1298**	**-933**	**-881**	**-1963**

8.Other Fixed assets	2013E	2014E	2015E	2016E	2017E
Financial investments	**4**	**4**	**4**	**4**	**4**
Other	**743**	**909**	**1111**	**1358**	**1659**
Growth rate	22%	22%	22%	22%	22%

9. Other Fixed liabilities	2013E	2014E	2015E	2016E	2017E
Other debt instruments	**684,39111**	**803,2776392**	**942,8161123**	**1106,594007**	**1298,821987**
Growth rate	17%	17%	17%	17%	17%
Net position on tax liabilities	-67,5264	-50,6448	-33,7632	-16,8816	0

2.2.4 SCENARIO FINANCIAL ANALYSIS

SCENARIO FINANCIAL ANALYSIS

Analysis: Structure ratios	2013E	2014E	2015E	2016E	2017E
Working capital	-13%	-20%	-13%	-12%	-29%
Fixed assets	113%	120%	113%	112%	129%
Total	100%	100%	100%	100%	100%
Net s.t debt	-65%	-73%	-73%	-77%	-109%
L.T Debt	12%	14%	15%	16%	21%
Equity	153%	159%	158%	161%	188%
Total	100%	100%	100%	100%	100%

Breakeven point	2013E	2014E	2015E	2016E	2017E
Variable expenses	-7166	-7687	-8497	-8696	-9693
Revenues	17062	18086	19533	20705	22154
Gross margin	58,00%	57,50%	56,50%	58,00%	56,25%
Fixed expenses	6070	6430,352964	6939,162441	7349,370634	7856,557282
BEP over EBITDA	**10466**	**11183**	**12282**	**12671**	**13967**
Position over sales	**163%**	**162%**	**159%**	**163%**	**159%**
OPEX+ Depre+Fin exp	6826,703759	7234,077156	7808,996649	8269,943954	8729,079636
Breakeven over profit	**11770,17889**	**12581,00375**	**13821,23301**	**14258,52406**	**15518,3638**
Position in t of sales	**145%**	**144%**	**141%**	**145%**	**143%**

Risk & return	2013E	2014E	2015E	2016E	2017E
Gross margin	58%	58%	57%	58%	56%
EBITDA/Revenues	22%	22%	21%	23%	21%
EBIT/Revenues	18%	17%	16%	18%	17%
Net profit/Revenues	14%	13%	13%	14%	13%

Leverage factor	2013E	2014E	2015E	2016E	2017E
ROE	**27,50%**	**25,75%**	**23,68%**	**25,06%**	**23,53%**
ROIC	**43,34%**	**39,27%**	**37,52%**	**39,49%**	**37,72%**
EBIT	3058	3155	3218	3728	3719
Tax rate	24%	23%	23%	23%	23%
NOPLAT	**2.324**	**2.430**	**2.478**	**2.870**	**2.864**
Net assets	5363	6186	6604	7269	7592
Leverage factor	**-15,84%**	**-13,52%**	**-13,84%**	**-14,43%**	**-14,19%**

Financial leverage	2013E	2014E	2015E	2016E	2017E
ROIC	43,34%	39,27%	37,52%	39,49%	37,72%
ROIC-Kfin result*(1-T)	43,07%	39,04%	37,34%	39,29%	37,49%
kfin result	0%	0%	0%	0%	0%
kfin result(1-t)	0%	0%	0%	0%	0%
Interest	-11	-10	-9	-11	-14
Total net debt -1	-3119	-3279	-3888	-4222	-4624
Net position on S.T.D	-3767	-4044	-4790	-5279	-5862
Fixed liabilities	647	766	901	1058	1238
D/E	-37%	-35%	-37%	-37%	-38%
ROE	**27,50%**	**25,75%**	**23,68%**	**25,06%**	**23,53%**
Error	0,00%	0,00%	0,00%	0,00%	0,00%

Dupont analysis	2013E	2014E	2015E	2016E	2017E
ROE	28%	26%	24%	25%	24%
Net profit/EBT	76%	77%	77%	77%	77%
EBT/EBIT	100%	100%	100%	100%	100%
EBIT/ Sales	18%	17%	16%	18%	17%
Sales/ Assets	318%	292%	296%	285%	292%
Assets/ Equity	63%	65%	63%	63%	62%
Error	0,00%	0,00%	0,00%	0,00%	0,00%

CF Statement

EUR m	2013E	2014E	2015E	2016E	2017E
1. NOPLAT	**2324**	**2430**	**2478**	**2870**	**2864**
Tax rate	24%	23%	23%	23%	23%
2. Adjustments	**768**	**814**	**879**	**932**	**886**
. Depreciation	768	814	879	932	886
. FOREX	0	0	0	0	0
. Provisions	0	0	0	0	0
. others	0	0	0	0	0
1+2 = Gross cash flow	**3092**	**3243**	**3357**	**3802**	**3750**
. Stock	23	-251	-60	-122	-214
. Account receivables	318	-401	362	-679	795
. Account payables	-322	1116	-667	749	501
3. Change in working capital	**19**	**464**	**-365**	**-52**	**1082**
CFO= GCF +3	**3112**	**3708**	**2992**	**3750**	**4832**
1.Tangible assets	5410	6082	6133	6107	6114
2.Intangible assets	863	907	955	1004	1056
3.Others	743	909	1111	1358	1659
Total FA= 1+2+3	7016	7898	8198	8469	8830
CAPEX = Variation FA + Depreciation	**-1476**	**-1531**	**-977**	**-956**	**-945**
Variation in other FA	**-135**	**-165**	**-202**	**-247**	**-302**
CFI	**-1611**	**-1696**	**-1179**	**-1203**	**-1247**
1. Financial result	8	8	7	9	11
2.1 S.T Debt	76	76	76	76	76
2.2. L.T Debt	4	4	4	4	4
.1+.2 Total debt	81	81	81	81	81
2. Change in debt = Variation TD	**0**	**0**	**0**	**0**	**0**
3. Dividends	**-1349**	**-1410**	**-1487**	**-2154**	**-2150**
4. Minorities change	**0**	**0**	**0**	**0**	**0**
5.1 Net position on tax liabilities	-68	-51	-34	-17	0
5.2 Financial assets	4	4	4	4	4
5.3 Other financing liabilities	684	803	943	1107	1299
.1-.2+.3 Total	613	749	905	1086	1295
5.Changes in Other financial liabilities	**118**	**136**	**156**	**181**	**209**
6.Other movements in equity	0	0	0	0	0
CFF	**-1223**	**-1266**	**-1324**	**-1964**	**-1930**
Cash variation BS	278	745	490	583	1655
Cash variation CFS	278	745	490	583	1655
Error	0	0	0	0	0

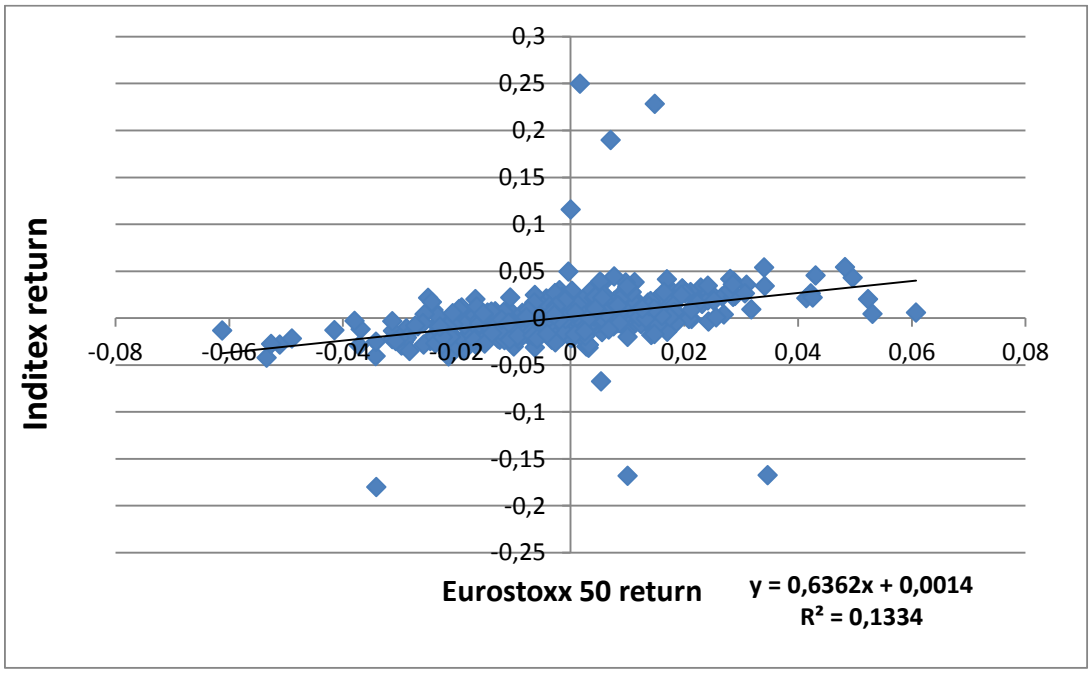
Free cash flow firm	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**
1. NOPLAT	**2.324**	**2.430**	**2.478**	**2.870**	**2.864**
Tax rate	24%	23%	23%	23%	23%
2. Adjustments	**768**	**814**	**879**	**932**	**886**
. Depreciation	768	814	879	932	886
1+2 = Gross cash flow	**3092,13**	**3243,45**	**3356,85**	**3802,13**	**3749,87**
Investments					
. Account receivables	23	-251	-60	-122	-214
. Account payables	318	-401	362	-679	795
3. Change in working capital	-322	1116	-667	749	501
Change in Working capital	19	464	-365	-52	1082
1. Working capiral investment	**-19**	**-464**	**365**	**52**	**-1.082**
2.Intangible assets	5410	6082	6133	6107	6114
3.Others	863	907	955	1004	1056
Total FA= 1+2+3	743	909	1111	1358	1659
CAPEX = Variation FA + Depreciation	7016	7898	8198	8469	8830
2. CAPEX	**1476**	**1531**	**977**	**956**	**945**
3. Investment in other assets	**135**	**165**	**202**	**247**	**302**
1+2+3=Gross investment	**1591**	**1232**	**1544**	**1255**	**165**
FCFF= GCF- GI	**1500,71**	**2011,65**	**1813,22**	**2547,28**	**3584,87**

ROIC	**43,34%**	**39,27%**	**37,52%**	**39,49%**	**37,72%**

Services	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**
1.Change in s.t debt	0	0	0	0	0
2.Change in fixed liabilites	-118	-136	-156	-181	-209
3.Interest expenses*(1-t)	-8	-8	-7	-9	-11
1+2+3=Debt service	**-127**	**-144**	**-163**	**-189**	**-220**
1.Increase in cash	278	745	490	583	1655
2.Dividends paid	1349	1410	1487	2154	2150
3.Others	0	0	0	0	0
1+2+3=Equity service	**1627**	**2155**	**1977**	**2737**	**3804**
1+2= Total service	**1501**	**2012**	**1813**	**2547**	**3585**
Error	0	0	0	0	0

Net reinvestment rate analysis	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**
Gross investment	1591	1232	1544	1255	165
Depreciation	768	814	879	932	886
Net invesment	824	418	665	323	-721
NOPLAT	2.324	2.430	2.478	2.870	2.864
NRR	35%	17%	27%	11%	-25%
NOPLAT*(1- reinvestment rate) =FCF	1500,71	2011,65	1813,22	2547,28	3584,87
Check	True	True	True	True	TRUE

APPENDIX 3: DISCOUNT RATE CALCULATION.



Covariance (M,I)	0,016%
Variance Market	0%
β	**0,6362**
Germand bund ten year yield	1,39%
Eurostoxx 50 yearly return	7,23%
Market premium	5,84%
Ce= Rf+(Em-rf)*β	5,10%
Country risk	2,88%
Ten year bond yield	4,27%
Ce with country risk	**7,98%**
E/(E+Df)	93%
Ke*E/(E+Df)	7,41%
Total financial debt	**664**
Total equity	**8482**
Debt+ equity	**9146**
Cost of debt=kf	2,13%
Tax rate	24%
After tax cost of debt=Kf*(1-	**1,61%**
Df/(E+Df)	7%
kf*(1-t)*Df/(E+Df)	0,12%
Rwacc	**7,52%**

$$Rwacc = \left((ce_{without\ contry\ risk} + country\ risk) * \frac{E}{(D_f + E)} \right) + \left(k_f * (1 - t) * \frac{E}{(D_f + E)} \right)$$

APPENDIX 4: VALUATION DCF & EXPECTED VALUE OF THE SHARE

Value in each Scenario

Valuation optimistic scenario		Valuation neutral scenario		Valuation pesimistic scenario	
1.PV FCFF	**13450,27**	**1.PV FCFF**	**11504,72**	**1.PV FCFF**	**8994,76**
ko=Rwacc	7,52%	ko=Rwacc	7,52%	ko=Rwacc	7,52%
2.Terminal Value	**108693,49**	**2.Terminal Value**	**81949,19652**	**2.Terminal Value**	**65530,64**
FCFF t17 *(1+g)	4652,24	2.1FCFF t17 *(1+g)	4038,90	2.1FCFF t17 *(1+g)	3654,61
(ko-g)	4,28%	2.2(ko-g)	4,93%	2.2(ko-g)	5,58%
2.1Growth rate to perpetuity= 2	3,24%	2.3Growth rate to perpetuit	2,59%	2.3Growth rate to perpe	1,95%
2.1.1=RR	12,97%	2.3.1=RR	12,97%	2.3.1=RR	12,97%
2.1.2=ROIC to perpetuity	25%	2.3.2=ROIC to perpetuity	20%	2.3.2=ROIC to perpetuit	15%
1+2 =Value of the company	**83792,47**	**1+2 =Value of the compa**	**64539,05**	**1+2 =Value of the com**	**51403,64**
1+2+3=Debt	664	1+2+3=Debt	663,76	1+2+3=Debt	663,76
1.S.T.debt	76	1.S.T.debt	76,355	1.S.T.debt	76,355
2.L.t.debt	4	2.L.t.debt	4,306	2.L.t.debt	4,306
3.Others	583,1	3.Others	583,1	3.Others	583,1
Value of the company - Debt	**83128,71**	**Value of the company - D**	**63875,29**	**Value of the company**	**50739,88**
Nº of shares	**623,3304**	**Nº of shares**	**623,3304**	**Nº of shares**	**623,3304**
Share Price	**133,3621931**	**Share price**	**102,474209**	**Share price**	**81,40126**
Terminal value/ Value company	84%		82%		83%

Expected value of the company, variance, standard deviation & confidence interval

Assumed distribution	Degree of confidence	Expected value share pr	Variance	Standard deviation	Upper point	Lower point
Simplified B distribution	68,20%	**104,11**	75,00	8,66	**112,77**	**95,45**
Simplified B distribution	95,40%	**104,11**	75,00	8,66	**121,43**	**86,79**
Simplified B distribution	99,60%	**104,11**	75,00	8,66	**130,09**	**78,13**
Triangular distribution	68,20%	**105,75**	113,84	10,67	**116,42**	**95,08**
Triangular distribution	95,40%	**105,75**	113,84	10,67	**127,08**	**84,41**
Triangular distribution	99,60%	**105,75**	113,84	10,67	**137,75**	**73,74**
Uniform distribution	68,20%	**107,38**	224,99	15,00	**122,38**	**92,38**
Uniform distribution	95,40%	**107,38**	224,99	15,00	**137,38**	**77,38**
Uniform distribution	99,60%	**107,38**	224,99	15,00	**152,38**	**62,38**

APPENDIX 5: SENSITIVITY ANALYSIS

Sensitivity analysis

Growth rate optimistic scenario

133,3621931	1,74	2,24	2,74%	**3,24%**	3,74%	4,24%	4,74%
6,02%	13,22	13,96	180,98	210,71	253,14	319,63	438,07
6,52%	13,08	13,81	155,69	177,05	205,85	247,44	312,38
7%	12,95	13,66	136,35	152,33	173,03	201,26	241,89
7,52%	12,81	13,51	121,02	**133,36**	148,84	169,10	196,64
8,02%	12,68	13,37	108,74	118,52	130,49	145,68	165,50
8,52%	12,55	13,22	98,55	106,46	115,94	127,68	142,52
9,02%	12,42	13,08	90,01	96,51	104,17	113,47	124,94

Sensitivity analysis neutral scenario

102,474209	1,09%	1,59%	2,09%	**2,59%**	3,09%	3,59%	4,09%
6,02%	109,51	120,32	133,88	151,41	174,92	208,12	258,56
6,52%	98,50	107,12	117,68	130,92	148,04	171,01	203,44
7%	89,38	96,37	104,79	115,10	128,05	144,77	167,20
7,52%	81,67	87,43	94,26	**102,47**	112,54	125,17	141,49
8,02%	75,15	79,97	85,61	92,29	100,32	110,16	122,52
8,52%	69,50	73,57	78,29	83,80	90,32	98,17	107,79
9,02%	64,57	68,06	72,04	76,65	82,03	88,41	96,08

Sensitivity analysis pessimistic scenario

81,40	0,45%	0,95%	1,45%	**1,95%**	2,45%	2,95%	3,45%
6,02%	87,01	94,60	103,85	115,36	130,10	149,63	176,75
6,52%	78,91	85,10	92,52	101,55	112,80	127,19	146,27
7%	72,07	77,20	83,25	90,49	99,31	110,30	124,36
7,52%	66,19	70,49	75,50	**81,40**	88,47	97,08	107,80
8,02%	61,16	64,80	69,01	73,90	79,68	86,59	95,01
8,52%	56,74	59,86	63,43	67,54	72,32	77,96	84,72
9,02%	52,86	55,55	58,61	62,09	66,10	70,78	76,29

APPENDIX 6: RELATIVE VALUATION.

Price to sales

Name of the company	2012	2011	2010	2009	2008
Industria del diseño Textil	**2,47**	**2,43**	**2,05**	**1,68**	**2,24**
Peer average	1,41	1,34	1,39	1,02	1,36
Next PLC	1,22	0,92	0,93	0,58	0,68
Abercrombie & Fitch Co.	0,80	0,95	0,71	0,48	1,79
Hennes & Mauritz AB	2,69	2,81	2,95	2,33	2,82
Gap Inc	0,63	0,63	0,63	0,37	0,63
Fast retailing co ltd	1,73	1,36	1,72	1,32	0,90

PER

Name of the company	2012	2011	2010	2009	2008
Industria del diseño Textil	**16,69**	**17,36**	**14,80**	**14,19**	**18,59**
Peer average	19,0	21,5	19,7	22,8	10,6
Next PLC	12,87	9,38	9,01	10,32	7,15
Abercrombie & Fitch Co.	16,9	31,68	28,08	N/M	5,75
Hennes & Mauritz AB	21,19	22,39	21,03	39,2	16,12
Gap Inc	13,45	11,02	9,38	11,7	8,1
Fast retailing co ltd	25,97	27,12	19,11	22,79	27,12

Price to book value

Name of the company	2012	2011	2010	2009	2008
Industria del diseño Textil	**4,65**	**4,50**	**3,99**	**3,47**	**4,91**
Peer average	3,11	2,56	2,50	2,61	2,42
Next PLC	14,15	12,35	9,61	17,38	7,41
Abercrombie & Fitch Co.	1,36	1,34	1,38	0,94	1,01
Hennes & Mauritz AB	5,03	4,96	5,50	9,77	9,82
Gap Inc	3,26	2,06	1,71	1,63	1,42
Fast retailing co ltd	2,97	2,89	2,55	2,70	2,68

Price to sales

	2013 (22/05)	2013E (22/05)	2012 2nd January	2011 3rd january	2010 1st january	2009 1st january	2008 2nd january
Price per share	101,8	**104,11**	63,21	53,83	41,14	29,93	37,48
Nº of shares in millions	623,3304	623,3304	623,3304	623,227952	623,109136	623,109136	621,711085
Correction factor	1000000	1000000	1000000	1000000	1000000	1000000	1000000
Total number of shares	**623.330.400**	**623.330.400**	**623.330.400**	**623.227.952**	**623.109.136**	**623.109.136**	**621.711.085**
Sales in millions	15946	15946	15946	13793	12527	11084	10407
Correction factor	1.000.000	1.000.000	1.000.000	1.000.000	1.000.000	1.000.000	1.000.000
Total sales in euros	**15.946.143.000**	**15.946.143.000**	**15.946.143.000**	**13.792.612.000**	**12.526.595.000**	**11.083.514.000**	**10.406.960.000**
PTS	**3,98**	**4,07**	**2,47**	**2,43**	**2,05**	**1,68**	**2,24**

Price to earnings ratio

	2013 (22/05)	2013E (22/05)	2012 2nd January	2011 3rd january	2010 1st january	2009 1st january	2008 2nd january
Price per share	**101,80**	**104,11**	**63,21**	**53,83**	**41,14**	**29,93**	**37,48**
EPS	**3,79**	**3,79**	**3,79**	**3,10**	**2,78**	**2,11**	**2,02**
PER	**26,88**	**27,49**	**16,69**	**17,36**	**14,80**	**14,19**	**18,59**

Price to book value

	2013 (22/05)	2013E (22/05)	2012 2nd January	2011 3rd january	2010 1st january	2009 1st january	2008 2nd january
Price per share	101,80	104,11	63,21	53,83	41,14	29,93	37,48
Total number of shares	623.330.400	623.330.400	623.330.400	623.227.952	623.109.136	623.109.136	621.711.085
Equity in millions	8482	8482	8482	7456	6423	5371	4749
Equity in euros	8.481.861.000	8.481.861.000	8.481.861.000	7.455.577.000	6.423.167.000	5.370.546.000	4.748.600.000
PBV	7,481263218	7,651028232	4,645291238	4,499767175	3,990976703	3,472581082	4,907073972
Share book value	13,61	13,61	13,61	11,96	10,31	8,62	7,64